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# **State Incapacity by Design**

*Unused Grants, Poverty and Electoral Success in Bihar*

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A dissertation submitted in fulfilment of the requirements  
for the degree of Doctor of Philosophy  
from the University of Sussex

Institute of Development Studies  
University of Sussex

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I hereby declare that this thesis has not been and will not be, submitted in whole or in part to another University for the award of any other degree.

**Signature:**

**UNIVERSITY OF SUSSEX****ATHAKATTU SANTHOSH MATHEW****DPHIL DEVELOPMENT STUDIES****STATE INCAPACITY BY DESIGN***Unused Grants, Poverty and Electoral Success in Bihar***SUMMARY**

This thesis offers a perspective on why majority-poor democracies might fail to pursue pro-poor policies. In particular, it discusses why in Bihar, the Rashtriya Janata Dal (RJD) party led by Lalu Prasad Yadav, which claimed to represent the poor and under-privileged, did not claim and spend large amounts of centre–state fiscal transfers that could have reduced poverty, provided employment and benefitted core supporters. Despite this failure, the RJD and Yadav enjoyed repeated electoral success between 1990 and 2005, in a context of credible elections and a majority of poor voters. I have called this combination of events the ‘Bihar paradox’.

I explore this paradox by:

1. Creating two panel data sets on fiscal transfers in the form of Centrally Sponsored Schemes and State Plan Allocations made from the Government of India to sixteen main states over an eight-year period from 1997-98 to 2004-05.
2. Using the panel data sets to show that, during this period:
  - a) Poor states in India claimed and spent less of the centre–state fiscal transfers available to them than wealthier states
  - b) Relative to other states, the Government of Bihar claimed and spent less fiscal transfers than expected of a state at its level of poverty.
3. Explaining how Yadav’s electoral strategy contributed to this under-claiming and under-spending. For Yadav, the political imperative was to marginalize the upper castes and provide selective benefits to key supporters. This led to large numbers of public sector vacancies which eroded state administrative capacity in all but a few ‘pockets of productivity’, which in turn led to poor results for general development outcomes.

The Bihar story is relevant to areas of research variously labelled as ‘state-building’, ‘capacity development’ and ‘public sector reform’. It is another warning about how easy it is to foster pessimism by attributing governance problems in poor countries to deeply embedded historical or cultural factors, when they may have more immediate, political and tractable causes.

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---

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|       |  |
|-------|--|
| ACA   | Additional Central Assistance                |
| ADRI  | Asian Development Research Institute         |
| BAS   | Bihar Administrative Service                 |
| BC    | Backwards Caste                              |
| BDO   | Block Development Officer                    |
| BJP   | Bharatiya Janata Party                       |
| BPSC  | Bihar Public Service Commission              |
| CO    | Circle Officer                               |
| CPDO  | Child Development Project Officer            |
| CSDS  | Centre for the Study of Developing Societies |
| CSS   | Centrally Sponsored Scheme                   |
| DDC   | Deputy Development Commissioner              |
| DM    | District Magistrate                          |
| DRDA  | District Rural Development Agency            |
| FPTP  | First-Past-The-Post                          |
| GSDP  | Gross Domestic State Product                 |
| GOI   | Government of India                          |
| IAAS  | Indian Audit and Accounts Service            |
| IAS   | Indian Administrative Service                |
| IAY   | Indira Awaas Yojana                          |
| ICDS  | Integrated Child Development Scheme          |
| IFS   | Indian Foreign Service                       |
| IPS   | Indian Police Service                        |
| IRDP  | Integrated Rural Development Program         |
| JD(U) | Janata Dal (United)                          |
| KVIC  | Khadi and Village Industries Commission      |
| MISA  | Maintenance of Internal Security Act         |

|        |   |
|--------|---|
| MLA    | Member of the Legislative Assembly                        |
| MP     | Member of Parliament                                      |
| MPLADS | Member of Parliament Local Area Development Scheme        |
| NCTE   | National Council for Teacher Education                    |
| NDA    | National Democratic Alliance                              |
| NDC    | National Development Council                              |
| NOAPS  | National Old Age Pension Scheme                           |
| NSDP   | Net State Domestic Product                                |
| NSS    | National Sample Survey                                    |
| NSSO   | National Sample Survey Organisation                       |
| OBC    | Other Backward Classes                                    |
| PCSE   | Panel Corrected Standard Error                            |
| PD     | Primary Deficit   |
| PIL    | Public Interest Litigation                                |
| PMGSY  | Prime Ministers Gram Sadak Yojana                         |
| PRI    | Institutional Revolutionary Party                         |
| RBI    | Reserve Bank of India                                     |
| RCD    | Road Construction Department                              |
| RD     | Revenue Deficit   |
| REO    | Rural Engineering Organisation                            |
| RJD    | Rashtriya Janata Dal                                      |
| RLEGP  | Rural Labour Employment Guarantee Scheme                  |
| Rs.    | Indian Rupee (all conversions have been done £1 = Rs. 75) |
| RSVY   | Rashtriya Sam Vikash Yojana                               |
| RTI    | Right to Information Act                                  |
| SC     | Scheduled Caste   |
| SCP    | Special Component Plan                                    |
| SP     | Superintendent of Police                                  |
| SPA    | State Plan Allocation                                     |



|        |   |
|--------|---|
| SSA    | Sarva Shiksha Abhiyan                       |
| ST     | Scheduled Tribe                             |
| TRYSEM | Training of Rural Youth for Self Employment |
| UPSC   | Union Public Service Commission             |
| US     | United States                               |

## LIST OF TERMS

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|                   |   |
|-------------------|---|
| <i>abwabs</i>     | extra-legal demands   |
| <i>amlas</i>      | subordinate agents of zamindars   |
| <i>anganwadi</i>  | day care centre   |
| <i>aukat</i>      | socio-economic status as a person of low standing   |
| Banias            | caste consisting generally of moneylenders or merchants   |
| <i>beggar</i>     | unpaid forced labour  |
| Brahmans          | or Brahmin – highest ranking of the four varnas, they are priests   |
| <i>Charka</i>     | spinning wheel  |
| <i>charpai</i>    | bed made from woven hemp stretched on a wooden frame  |
| Dalit             | formerly known as untouchables they are listed as Scheduled Castes in the Indian constitution   |
| <i>diwan</i>      | representative of the Mughal empire in Bengal   |
| <i>diwani</i>     | overlordship  |
| Dola              | a practise in which every newly married Dalit woman had to spend her first night after marriage with the village landlord.            |
| Forward Caste     | or Upper Caste – they include castes such as Brahmins, Kshatriyas etc. who do not benefit from affirmative action by the Indian state |
| <i>gram sabha</i> | village general assembly  |
| <i>izzat</i>      | ‘honour’ or ‘self respect’  |
| <i>jati</i>       | caste   |
| Jats              | farming caste   |
| <i>khadi</i>      | hand-spun yarn  |
| Kshatriyas        | warrior caste; Rajputs are Kshatriyas   |
| Kurmis            | Shudra farming caste; some consider themselves as Kshatriyas  |
| Lok Shaba         | lower house of Indian Parliament  |
| Marathas          | caste – mainly rural cultivators, landowners, and soldiers  |
| <i>pairavi</i>    | to canvas   |
| <i>panchayat</i>  | literally means assembly of five (panch) wise and respected elders  |

|                       |  |
|-----------------------|--|
| <i>panchayat raj</i>  | a system of governance in which gram panchayats are the basic units of administration. It has 3 levels: village, block and district. |
| <i>pani panchayat</i> | a group of farmers engaged in the collective management of water, first promoted by Late Vilas Rao Salunke                           |
| sliver                | the raw material used to make khadi (hand-spun yarn)   |
| <i>varna</i>          | caste classification based on occupation   |
| <i>vyavastha</i>      | ‘manage’   |
| Yadavs                | caste with pastoral origins, ranked lower than the peasant castes among the backwards  |
| <i>Zamindar</i>       | landlord – was free to impose and collect taxes on his lands provided he handed over a fixed sum to the colonial administration      |
| <i>zulum</i>          | physical maltreatment and oppression   |

*Politician's dilemma – 'the wrenching conflict between their own need for immediate political survival and longer run collective interests in economic performance...' (Geddes 1994: 18)*

## Chapter 1 – Introduction

This thesis is about governance in Bihar. Through it, I attempt to explain the paradox that a regime was repeatedly endorsed by poor voters in successive free elections from 1990 to 2005, yet failed to deliver on pro-poor outcomes. However, besides an academic exercise, this thesis is a personal journey through which I try to make sense of my encounters with politics, public administration and development over the last 25 years in the Indian Administrative Service (IAS)<sup>1</sup>.

In the following sections, I will introduce this topic and my research by presenting a brief introduction to: Bihar and its politics, my work in the IAS, the existing literature relevant to this topic, my findings and the organisation of this thesis.

### 1.1 The Indian Administrative Service (IAS)

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I joined the Bihar cadre of the IAS in 1985. Life in Bihar was a sharp contrast to the urban and not-so-poor India I grew up in. Bihar, with its unimaginable levels of poverty and social exploitation, and the IAS, with its huge budgets and the might of the Indian state, presented an opportunity to make a difference to India's underdevelopment and to global poverty.

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<sup>1</sup> Right through this thesis wherever it has been possible I have cited the source of my information. However quite a lot of the analysis is dependent on my own knowledge. Therefore where ever a source has not been mentioned it can be assumed that the source is 25 years of personal observations and experience.

As collector and district magistrate (DM) in Bihar, you are the administrative head of a district<sup>2</sup> and the public face of government. You hold the monopoly over the legitimate use of violence. You work at the intersection between politics and administration. All district department heads report to you, including heads of police, jails, health services, education, agriculture and engineering. Your responsibilities include supervision of public expenditure, law and order and government employees in the district. You occupy this position at the pleasure of the state government, but the state government depends on you to get everything done within your jurisdiction. There is a delicate balance of power vis-à-vis the state government, but because you are the person on the ground, you enjoy considerable autonomy and there is much that you can do.

The office of the collector and district magistrate was created by the British colonial administration and dates back to 1787 (Parashar 2003). Though much has changed since then, the following abstract gives a flavour of the kind of work a district collector in Bihar does to this day:

Upon his energy and personal character depends ultimately the efficiency of our Indian Government. His own special duties are so numerous and so various as to bewilder the outsider... Police, jails, education, municipalities, roads, sanitation, dispensaries, the local taxation, and the imperial revenues of his District, are to him matters of daily concern... He should be a lawyer, an accountant, a surveyor, and a ready writer of State papers. He ought to possess no mean knowledge of agriculture, political economy, and engineering. (Hunter 1886: 436)

This translates to power—power to pursue the public good or private gain. Life in the district is very political, but different from politics in the state capital, where you help

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<sup>2</sup> There are 28 states and seven union territories in India. Each state and union territory is divided into a number of districts and each district into sub-divisions. There are 38 districts in Bihar and 626 in India. Below the sub-division you have community development blocks, which in turn are divided into a number of *panchayats*.

your departmental minister and the state cabinet take decisions and supervise their implementation.

The years I spent in the districts and in the Bihar state capital coincided with the dominance of Lalu Prasad Yadav, who first became chief minister of Bihar in 1990 and was re-elected in 1995. In 1997, Yadav was incarcerated, pending a trial for corruption in a case that became famous as the ‘fodder scam’, but he retained power by installing his wife as chief minister. The husband and wife duo remained in power until 2005. One of the things I could not understand about this 15-year period was the lack of interest both the district and state-level political leadership seemed to exhibit in pursuing schemes related to poverty reduction, education and agricultural production that could have benefitted the poor, who were their core supporters. This was puzzling because the vast majority of voters in Bihar were poor and India has credible elections (i.e., it was not the case that a rich minority had fixed the elections to favour their candidates). Instead, political energy went into ensuring that certain individuals were favoured in postings, procurement and prosecution. The following section introduces these unique conditions.

## **1.2 Bihar: A Brief Introduction**

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Bihar is a state in northern India. To the north, it shares an international border with Nepal, and to the east and west it borders the Indian states of Uttar Pradesh and West Bengal. In 2000, the southern, tribal parts of Bihar were carved out to create the new state of Jharkhand.

Figure 1.1 Population map of Bihar



Source: <http://www.mapsofindia.com/census2001/population/population-bihar.htm>

In 1992/3, Bihar was the poorest state in India, with 57 per cent of its predominantly rural population living in poverty (Himanshu 2007). If Bihar were a country, it would be the tenth most populous nation in the world with 90 million people. Caste is an important fact of everyday life, particularly in politics (Witsoe 2007b). Until 1990, upper castes (only 13 per cent of the population) had traditionally dominated politics and the state bureaucracy. As Blair describes,

... it is only the upper and middle caste groups, with their resources of wealth and numbers, that have enjoyed the fruits of caste-oriented



democracy, while the lower castes have been left for all practical purposes outside the political arena. (Blair 1972: 107)

Though Bihar has one of the lowest economic inequalities among Indian states (Dreze and Sen 2002: Table A.3), the particular form of social and economic inequality in which power and privilege from class, caste and gender mutually reinforce, has led to a situation in which ‘insecurity and fear have always been part of the daily lives of the poor’ (Bhatia 2005: 1544). For a fuller discussion, see Chapter 3.

However, in elections for the state legislative assembly held in 1990, more backward than upper caste members were elected for the first time. Among these was Lalu Prasad Yadav, a young and energetic Backward Caste (BC)<sup>3</sup> leader who promised to end upper-caste hegemony and was elected chief minister (Witsoe 2007b). However, Yadav did very little to economically empower poor and backward castes, and Bihar became notorious for bad governance and the break down of the rule of law<sup>4</sup>. Large amounts of fiscal transfers from the Government of India (GOI) meant for poverty reduction and social security remained unclaimed and unspent (World Bank 2005). Some even went to the extent of writing that Bihar represented the Marxian utopia ‘... where the state had withered away’ (Sharma 1995: 2587).

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<sup>3</sup> Backward Castes are a grouping of socially deprived castes who, unlike Scheduled Castes and Scheduled Tribes, did not benefit from affirmative action in the early constitution of India. I use this term in the sense that it was used in the Mungeri Lal Commission report on Backward Classes in Bihar. It consists of castes listed as Backward Castes in Annexure II and Extremely Backward Castes in Annexure I. Details of these are available in Robin (2009).

<sup>4</sup> This is the popular perception about Bihar. For example, the *Economist* magazine ran an editorial on 28 January 2010, which among other things said ‘... Lalu Prasad Yadav, a shrewd, roguish politician... ruled Bihar, India’s most depressed and unruly state, for 15 years...’ (2010). Crime statistics for the period however show no dramatic difference in the levels of overall crime compared with the period before Yadav was chief minister (Witsoe 2007b). In Chapter 7, I put forward a hypothesis on the reason for this dichotomy between public perception and official statistics.

There are various reasons to believe that governance in Bihar was not always thus, at least in terms of the functioning of the public service. Though the quality of public administration and life in general began to decline long before the 1990 ascension of Yadav and his backward-caste dominated party, the 1950s and 1960s are universally described in the literature as having been a period when Bihar was a well-functioning state (Appu 2002; Rorabacher 2008).

### **1.3 Motivation for This Research**

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In what follows, I use three examples from my work in the IAS in Bihar between 1990 and 2004 to show how there was an overall lack of interest in pro-poor policy during this period. The first two examples illustrate how district political leadership had little interest in schemes and centre–state fiscal transfers that could have reduced poverty, and how, at crucial junctures, political expediency jeopardised efforts that were benefiting the poor. The third shows how the political leadership of the Bihar Department of Education showed no interest in providing public sector jobs—a potential source of patronage—despite the fact that the Central Government was picking up the costs.

It was 1991. For those who were battling poverty and caste<sup>5</sup> exploitation, it was a time of great promise. Following elections to the state legislative assembly in 1990, against a

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<sup>5</sup> According to Michael (1999), ‘Caste is a system of ritual hierarchy maintained through restrictions on inter-marriage. Its notion of right livelihood in the fulfillment of duty is justified in terms of reincarnation and karma; high-caste individuals are thought to have earned status by dutiful action in previous lives. It divides rights and responsibilities based on notions of relative purity; thus it assigns socially necessary tasks to specific groups. Socially significant, endogamous castes (jatis) were divided from ancient times into four caste groups (varnas): brahmins, kshatriyas, vaishyas, and shudras. Brahmins were priests, kshatriyas warriors, vaishyas farmers or merchants, and shudras servants or commoners. Dalits (formerly called untouchables) were a despised group below the shudras and the most impure in the ritual hierarchy’ (cited in Clements 2005: 9).

population share of 65 per cent<sup>6</sup>, the percentage share of BC, Dalit<sup>7</sup> and Scheduled Tribe (ST)<sup>8</sup> members in the state legislative assembly<sup>9</sup> had for the first time risen to 58 per cent (Robin 2009: 67 & 100). A new government headed by Yadav had assumed office on a platform that promised to empower the poor and end upper caste<sup>10</sup> dominance, particularly in the bureaucracy.

Yet when it came to pro-poor policy, the election results changed almost nothing. Except for strict instructions that communal violence was to be prevented at all costs and that officials should be sympathetic to demands from BCs, Muslims, and Scheduled Castes (SCs)<sup>11</sup>, there were no new pro-poor initiatives by the Bihar government. There were also no efforts to improve the implementation of the existing anti-poverty schemes. If officers in the district wanted to improve the poverty reduction outcomes of existing schemes, they had to do so by stealth (i.e., by hoodwinking the local level political leadership). Members of the Legislative Assembly (MLAs, as they are commonly called) not only legislate, they also have an important role in local-level scheme implementation through their membership of district and block level decision making bodies. Most MLAs, whether upper caste or backward, continued the old practise of focussing their energies in influencing senior officials (engaging in *pairavi*,

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<sup>6</sup> See Annexure 1 for a detailed break down of caste in Bihar.

<sup>7</sup> The word Dalit comes from the Marathi language, and means 'suppressed'. Dalits are also known as Harijans, a word first coined by Gandhi that translates as 'children of God'. The official term is 'Scheduled Castes' following their notification as such in clause 1 of Article 341 of the Constitution of India.

<sup>8</sup> The word Scheduled Tribe (ST) follows the notification of certain communities as suffering from extreme social, educational and economic backwardness who need special consideration for safeguarding their interests. These communities were notified as STs in clause 1 of Article 342 of the Constitution of India.

<sup>9</sup> See Annexure 8 for caste- and community-wise details of members in the Bihar Legislative Assembly from 1952 to 2005.

<sup>10</sup> I use the term 'upper caste' to mean all who are not BC, Dalit, ST or Muslim.

<sup>11</sup> Here and elsewhere Scheduled Castes and Dalits are used interchangeably.

meaning ‘to canvass’) so that their cronies were favoured in government contracts or avoided prosecution for criminal charges. They operated with an ‘I owe you’ policy towards officials, trading favours for more favours. The state government was at best a disinterested spectator.

My experiences, described in the three examples below, led me to this research topic and are illustrative of the governance problems at that time.

### **1.3.1 Example One**

In 1991, I was the deputy development commissioner<sup>12</sup> (DDC) in the northern Bihar district of Saharsa<sup>13</sup>. My own attempts at re-orienting a dysfunctional microcredit program, the Integrated Rural Development Program (IRDP), to benefit 8,000 poor women met with resistance from MLAs in the district because they feared that they would lose an important source of patronage. The District Rural Development Agency (DRDA) finally approved the re-orientation plan only because both the DM and I personally requested the MLAs to overcome their reluctance and allow us to use at least one program to reduce poverty. The reorientation plan was to develop industry clusters dedicated to producing hand spun yarn called *khadi* across the district. In two years, these clusters would have reached a production level greater than the total production of yarn in the north and east of India at that time. A pre-condition for the roll out of this plan was a commitment from the Khadi and Village Industries Commission (KVIC), the designated national authority of the GOI, to do a number of tasks, including:

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<sup>12</sup> The DCC supervises all development programs in the district and also performs the duties of the DM during his or her absence.

<sup>13</sup> The district of Saharsa was divided into two in 1992, when the northern parts were carved out to create a new district called Supaul.

- Supplying spinning wheels (*charkas*, made famous by Mahatma Gandhi's campaign for independence from British rule)
- Setting up a central sliver<sup>14</sup> manufacturing unit
- Formally committing to arrange for the marketing of khadi

According to protocol that governs relationships between entities of the state government and Central Government departments and organisations, it is the state director (of handlooms, in this case) who has to take the lead in negotiating agreements with the concerned departments and organisations of the GOI; in this case, KVIC. However due to a lack of interest at the state level, we had no choice but to approach KVIC directly. Fortunately, KVIC was happy to support our efforts because for two years they had been trying to get the support of the state government to locate a central sliver plant in the state. Given the economic potential of Saharsa district and the resources we were willing to commit, KVIC moved swiftly to facilitate our initiative.

The state minister in charge of handlooms and village industries in Bihar saw the progress we were making and convinced the state government to issue an extraordinary order asking me to take additional charge as chief executive officer (CEO) of the Bihar State Khadi Board, with jurisdiction over the entire state. This kind of order had never been issued before, one in which an officer was in charge of both a district and a sector—khadi and village industries in this case—for the entire state. The minister was keen to replicate the Saharsa model in other parts of the state. I agreed to take on this atypical work arrangement on the condition that some minimal financial resources would be available to restructure the Khadi Board. The reform-minded minister and I worked hard at making this arrangement work, but when we failed to get the state

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<sup>14</sup> Sliver is the principal raw material that goes into a charka to make khadi.

finance department to give us the money needed to restructure the Khadi Board, he reluctantly agreed to relieve me of my CEO duties.

After two years in Saharsa and mid-way through efforts to develop the khadi industrial clusters, the time had come for my scheduled promotion to district magistrate. The state government could have made me DM of any district in Bihar, but the most logical choice was to appoint me to Saharsa district because any change in personnel at that time would have jeopardised the microcredit project. Senior officials who were aware of the project's potential to reduce poverty tried their best to get me posted in Saharsa, but local politicians who were otherwise appreciative of my efforts saw me as a threat to their patronage networks and stood in the way. Instead, I was moved to Palamau district and the program in Saharsa suffered. Many years later, I learned that one reason for the lack of enthusiasm in Patna (the Bihar state capital) for my work in Saharsa district was that production of khadi was traditionally an upper caste occupation in rural Bihar. It will become clear later in this thesis why the issue of caste was so important.

### ***1.3.2 Example Two***

It was 1993, and I was now DM of drought-stricken Palamau, a tribal district in south Bihar<sup>15</sup>. Palamau was famous for repeated droughts, and most people assumed that this was caused by inadequate rainfall. In reality, however, Palamau district had an average annual rainfall of 1280 mm and 38 per cent forest cover (over a total area of 8,000 square kilometres). Thus, it was the timing and not the total quantity of rainfall that was causing repeated crop failure. This timing, combined with the inability to conserve and use rain water, led to persistent distress migration and death from malnutrition due to

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<sup>15</sup> Palamau is now in Jharkhand state.

crop failure (S. Gupta 2004). Of the district's population of 2.4 million, 44 per cent were Dalits and STs, and they were the poorest and most deprived. Despite the numerical strength of these marginalised groups and the salience of caste issues in electoral politics, district politics were dominated by members of the upper castes who owned the construction, timber and mining industries.

The state governor<sup>16</sup>, cabinet ministers and officials in Patna were shocked when I told them about the district's plentiful but ill-timed rainfall, as they had never made this connection before. With the help of NGOs, I started a massive rural works program aimed at providing employment and drought proofing for villages with substantial Dalit and ST populations. We organised water conservation groups called *pani panchayats*<sup>17</sup> and provided them with training, funds and support to construct and maintain traditional water harvesting structures and irrigation channels (Peoples Science Institute 2003). This angered local politicians for whom chronic droughts<sup>18</sup> were an opportunity to make money. Some won contracts for building large and expensive dams that were never completed, while others profited from digging deep tube wells<sup>19</sup> most of which dried up because ground water recharge was poor due to deforestation, hilly terrain and inadequate water conservation.

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<sup>16</sup> The governor of a state in India has similar powers and functions at the state level as that of the president of India at the Union level. Governors are appointed by the president on the advice of the Union Cabinet.

<sup>17</sup> *Pani* means 'water' in Hindi and *panchayat* is the term used for the lowest unit of village self-governance. Pani Panchayats was a movement for equitable distribution of water pioneered by Late Vilasrao Salunke in western Maharashtra in 1972-73.

<sup>18</sup> There are three types of droughts: 1) meteorological, which occur when there is a prolonged period with less than average precipitation, 2) agricultural, which occur when crop production is affected, and 3) hydrological, which occur when water reserves in sources such as aquifers or lakes fall below average levels.

<sup>19</sup> Expensive drilling rigs are required to construct tube wells in hard rock geologies such as Palamau. Drilling tube wells was a popular activity amongst the elite in the district because of the widespread practice of over stating the depth of each tube well. MLAs got a share of the excess billing and, as members of the site selection committee, they could reward supporters with contracts.

Despite pressure from district leaders of all political parties to abandon the drought mitigation strategy I was pursuing, Chief Minister Yadav chose not to interfere. The political cost of mismanagement in Palamau was high because the drought situation in the district was making headlines in the national media. Finally, in the summer of 1993, Prime Minister Narasimha Rao announced that he would travel to Daltonganj, the district headquarters, to review steps taken by the Bihar government and district administration to tackle the droughts in Palamau and the adjoining district of Garhwa. Prime Minister Rao's visit followed a forceful plea in the Lok Sabha (the lower house of Parliament) by the then leader of opposition, Atal Bihari Vajpayee, who said:

... the alarming situation of drought that prevails in many parts of the country due to the failure of rain has been the subject of discussion in this House several times. 8 districts of Orissa, Palamau and Garhwa districts of Bihar and Sarguja district of Madhya Pradesh are facing severe drought conditions. There have also been reports of starvation deaths in those areas... This problem cannot be solved by holding talks in Delhi... Mr. Speaker, Sir, the situation there is serious. If the Centre and the State Governments do not join hands to start joint rescue operations on a large scale in order to provide employment and food to the people, the number of deaths which is now in hundreds will go in thousands. (Lok Sabha 1993)

As DM of Palamau, I was in charge of the Bihar government's efforts to fight the drought in the district. I was also in charge of organising the prime ministerial visit. Yet, I was asked not to attend the meeting in Daltonganj, in which the prime minister was to review steps being taken to combat drought. The State Government was aware that my views were at odds with their plan to appease local politicians by using the Prime Minister's visit to ask for more money to build dams and drill tube wells. Mid-way through the review meeting, Prime Minister Rao asked to see the head of the local district administration: the DM. He wanted to understand the perspective of the local officials. As such, I was summoned and asked to brief him on the steps we were taking



to deal with the drought. I made my argument about rainfall and the need to generate employment by training, funding and empowering local communities to rejuvenate traditional water harvesting structures and built new ones. Before I could complete what I was saying, Chief Minister Yadav interrupted me to say that my ideas were misplaced. There was pin drop silence when I responded that we might have to ‘agree to disagree’.

The Chief Minister’s intervention and my rebuttal took place in full view of half the state cabinet, the governor, the chief secretary and all departmental secretaries who had come from Patna. Fortunately, Prime Minister Rao had agreed to visit one of the *pani* panchayat work sites, something that neither Yadav nor officers from the state capital had done before then. The site visit was a turning point. Both the Prime Minister and Chief Minister were able to see the point I was trying to make regarding the potential of water conservation to provide much needed employment and to make water available when it was needed for agriculture. And, in spite of my public display of disagreement with the chief minister, I was neither disciplined nor moved to a new post. Some years later when Atal Bihari Vajpayee became prime minister, he had this to say about our work in Palamau:

I would like to cite the example of Palamau district in Bihar where *Pani Panchayats* have been setup to harvest water and manage watersheds. With the help of traditional structures and modern scientific inputs, a drought-prone area has witnessed remarkable change and is now set on the path of sustainable development. (Peoples Science Institute 2003)

However, prime ministerial and chief ministerial approvals did not amount to much in the face of sustained opposition from vested local interests. With elections for the state assembly due in early 1995, party leaders from the district pressured the Chief Minister to move me out of the district. Yadav’s hand was forced because he could not risk

angering his party men as state elections drew near. Despite knowing that the water conservation work with Dalits and tribes would suffer, by May 1994 (less than a year after Prime Minister Rao's visit and two years after I began in Palamau) I was moved to Patna as director of handlooms and sericulture in the Bihar Department of Industries<sup>20</sup>.

### **1.3.3 Example Three**

By 2004, I was Bihar state director for Sarva Shiksha Abhiyan (SSA) and subsequently secretary to government in the department of elementary and adult education. SSA was one of the key strategies of the national program for universalising elementary education in India. Among other goals, it aimed to increase school enrolment without increasing the pupil-teacher ratio. As the number of students attending school increased, we needed to recruit additional teachers so that adequate numbers of teachers were available to cater to the needs of a growing student population. The combination of improvements in student enrolment since 1990 with the failure to recruit new teachers meant that the pupil-teacher ratio in the state of Bihar had reached 90:1, much higher than the national average of 40:1. Although the GOI was promoting the recruitment of additional teachers, the Bihar state government was reluctant. This attitude was surprising because the GOI was paying the salaries of the new teachers and so the state government could potentially take credit for providing large number of new jobs and improving the quality of education at no cost. Like all politicians, those in Bihar were constantly on the lookout for opportunities to reward supporters with employment in the public sector, which makes their reluctance even more surprising.

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<sup>20</sup> The DM who followed me in Palamau took interest and supported the campaign, but by 1997 the contractor-politician lobby had succeeded in ending the program and NGOs who supported the work were driven out of the district.

Following intense pressure from the central authorities, the Bihar government finally gave in and agreed to recruit new teachers, but only after changing the eligibility criteria. The power to fix eligibility criteria for primary school teachers lies with the National Council for Teacher Education (NCTE)<sup>21</sup>, a statutory body of the Central Government. As per NCTE guidelines, state schools can only appoint teachers who have the appropriate teacher training qualification. In an effort to make their core supporters eligible, the Bihar leadership removed this requirement without the authority to do so. As expected, the high court intervened. The ensuing stay order, judgement and appeal in the Indian Supreme Court put a stop to all teacher recruitment in Bihar for many more years (Sify 2010).

The example of the Bihar Department of Education was not an isolated case. In Chapters 3 and 6, I show how the persistence of a large number of vacancies in almost all government departments in Bihar systematically destroyed state administrative capacity. In particular, it undermined the ability of the state government to claim and spend large amounts of GOI grants.

Together, these three examples show that, as a civil servant and development professional working in Bihar, vast amounts of unspent grants and large number of vacancies was not an abstract idea or a distant problem. It was a matter of daily significance. The combination of high levels of poverty with the inability to use available resources that could have reduced poverty, together with the combination of low administrative capacity exacerbated by an inability to fill vacancies, was deeply frustrating. The berating we received from GOI officials at national review meetings for

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<sup>21</sup> For more information on the NCTE, see <http://www.ncte-india.org/index.asp>.

being poor, incapable and backward did not help. Efforts to overcome procedural bottlenecks and increase spending were mostly unsuccessful—and as IAS professionals, we had no answers. The best we could do was to attribute this behaviour to a lack of political will. The problem was that we knew very little about why there was no political will, and even less about how to address it.

#### **1.4 The Puzzle**

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This thesis in many ways is an attempt to answer the question alluded to by the above three examples. Why did a democratically elected government that came to power by mobilising its poor, marginalised and rural supporters with the promise of using state power and resources to their benefit, do very little to pursue pro-poor policies once in office?

To help answer this question, my research explores why the Rashtriya Janata Dal (RJD) party led by Yadav, managed to win three consecutive elections and remain in power from 1990 to 2005, while under-claiming and under-spending the vast amounts of centre–state fiscal transfers available to it that could have been used to reduce poverty, provide employment and benefit core supporters.

This prolonged incumbency and failure to capitalise on GOI grants happened despite India (and Bihar) having:

... a competitive political system in which the public sector is an indispensable source of jobs and services, and where elected officials have discretionary power over the distribution of vital resources that directly impact the livelihood of communities. (Hislope 2005: 579)

In essence, what happened in Bihar between 1990 and 2005 was therefore a puzzle because:

- Bihar has credible elections and a competitive political system
- The majority of voters in Bihar were poor
- The RJD came to power in 1990 and remained in office until 2005 by promising to use state resources to benefit its supporters (the poor)
- In Bihar, the public sector is a source of sought-after jobs

Thus, in the context of credible elections and a majority of poor citizens, it is paradoxical that the RJD (and Yadav) presided over large amounts of unclaimed and unspent fiscal transfers while maintaining a huge number of public-sector vacancies.

I have chosen to call this research puzzle ‘the Bihar paradox’. This paradox has five elements alluded to above: unclaimed and unspent grants, a large number of vacancies in the public sector, repeated electoral success, credible elections and a majority poor electorate. Each element will be elaborated in detail in the following chapters.

## **1.5 Methodology**

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To explore the Bihar paradox, my research methodology draws from existing theory, insights from my years in the IAS, and an analysis of primary data sets created during my fieldwork.

### **1.5.1 Literature Review**

The Bihar paradox relates to a wider debate on why majority-poor democracies sometimes fail to implement pro-poor policies. There is burgeoning, but inconclusive, literature on this topic, ranging from investigations into why poor people support non-

pro-poor policies, to the ways in which policy arenas are manipulated such that they fail to serve the interests of the poor. The focus of the former is the voter, while the latter highlights the institutional and/or state perspective. In Chapter 2, I have attempted to summarise this range of literature by grouping theories in the following manner:

- i. Plurality of concerns
- ii. Politics of patronage
- iii. Information problems
- iv. Limited democracy
- v. The politician's dilemma

These categories are not mutually exclusive; rather, they overlap. Chandra (2004), for example, makes the point that ethnicity is one of a plurality of concerns (category i). However, ethnicity is also salient because of information problems in the electoral market (category iii). In an electoral market beset with inadequate information, voters find that ethnicity is a useful predictor of the candidates' behaviour once elected.

#### **1.5.1.1 Plurality of Concerns**

As workers, family members and individuals, we all have multiple roles and identities that shape our political concerns. Our concerns may be complimentary, overlap or conflict, and it is rare that a single role, identity, or concern will drive all of our political actions. Thus, it is unlikely that people, both rich and poor, will engage in politics based only on their class interests. A plurality of interests, some of which do not relate to class, may therefore help to explain why the poor in many cases fail to reap the democratic dividend that they could wield due to their large numbers. This makes it possible for parties that do not pursue pro-poor policies to win elections in majority-poor contexts by articulating aspects other than poverty reduction that may be of

salience to a electorally significant section of the voters (Acharya et al. 2006; Alesina et al. 1999; Banerjee 2004; Banerjee and Somanathan 2007; Chandra 2004; Easterly and Levine 1997; M. Gupta and Pushkar 2010; Jaffrelot 2003; Katzenstein et al. 2001; Mehta 2003; Roemer 1998; Varshney 2000).

### **1.5.1.2 Politics of Patronage**

The poor often get locked into patron–client relationships from which they are unable to escape. One reason for this is the uncertainty surrounding alternate sources from which the poor can obtain the goods and services they receive within the current patronage regime. The other is the intermediate cost of switching from one patron to another. Patrons retain their hold by ensuring that clients have access to an adequate supply of patronage goods and livelihood options. In poor countries, this supply is valuable to voters who do not have the purchasing power needed to buy these from the market when they are available. In cases where the market does not supply these goods or services, the poor client has no choice—an example being the protection of life and property in circumstances where the state does not provide this a public good—and is forced to depend on a powerful patron. The poor therefore often vote as directed by their patrons (Chubb 1981; Kitschelt and Wilkinson 2007; Magaloni 2006; Mainwaring 1999; Medina and Stokes 2007; Scott 1969; Stokes 2007; Wilkinson 2007; Yarahuán 2009).

### **1.5.1.3 Information Problems**

Information problems stem from the difficulty faced by voters (particularly the poor) in judging the past performance of their representatives and the validity of promises made by new challengers. As policymaking becomes complex, voters also find it difficult to interpret the impact that policy has on their welfare. This induces a preference for

private goods and makes the provision of otherwise important, but complex, public goods unattractive in the electoral market. This lack of information and transparency compromises the ability of the poor to benefit from the full range of benefits that a modern state could have otherwise provided. The focus of the political leadership under these circumstances tends to gravitate towards providing otherwise sub-optimal private goods such as price subsidies and jobs in the public sector (Besley and Burgess 2002; Chandra 2004; Keefer and Khemani 2004; Keefer 2005; Keefer and Khemani 2005; Khemani 2007b).

#### **1.5.1.4 Limited Democracy**

There are also instances where the reach of democracy is limited, thereby constraining the ability of the poor to gain access to services. This includes the overriding influence of corruption, elite capture and dysfunctional institutions of oversight (Abed and Gupta 2002; Alence 2004; Bardhan 1997; Diamond 2005). Corruption reduces efficiency through diversion of government expenditure towards less productive and easy to steal opportunities (Mauro 1998; Tanzi and Davoodi 1997). It also creates distortions that privilege the rich because they can pay the bribes that are needed to benefit from government-provided goods and services (Lui 1985). Corruption is also a highly regressive tax and the poor pay proportionally more of their income than the wealthy to gain access to basic services (World Bank 2003).

#### **1.5.1.5 The Politician's Dilemma**

Governments face a range of pressures on a day-to-day basis. On the one hand, their duty is to pursue the public good. On the other hand, they must also cater to voters and pressure groups in order to retain power. Consequently, politicians must satisfy a wide range of actors—many with competing interests—in order to implement policies while



staying in power. Geddes describes this as ‘the wrenching conflict between their own need for immediate political survival and longer run collective interests in economic performance...’ (1994: 18). Unfortunately, ‘the poor’ are often not a major pressure group because they do not have the strategic resources to influence government through either carrots or sticks. While pro-poor policy may benefit society as a whole, it may also harm the interests of the most powerful groups, to whom politicians often owe their terms in office. Thus, the failure to implement pro-poor policies could be the result of rational choices made by self-interested officials acting within particular institutional contexts (Bates 2008; Geddes 1994).

The bodies of literature discussed above, and elaborated in Chapter 2, offer alternate and overlapping explanations on the Bihar paradox. They do so from two vantage points. Firstly, they ask: why do ‘poor voters’ have inadequate influence, or why do they support parties that do not pursue pro-poor policies? Secondly, they ask: how and why do politicians manage to construct electoral majorities by shaping the electoral agenda in ways that do not benefit the majority? Together, both these vantage points throw light on possible reasons why majority poor electorates would want to re-elect parties that fail to pursue pro-poor policies. However, they lack the ability to explain how pro-poor policy failure and re-election coexisted with the paradoxical existence of two other aspects of governance in Bihar from 1990 to 2005: the large amounts of under-claimed and under-spent fiscal transfers and the large number of public sector vacancies. Thus, I have also conducted primary data collection and analysis in order to explore additional factors that might contribute to a more nuanced understanding of the Bihar paradox.

### **1.5.2 Data Collection and Analysis**

As discussed above, existing theories explain to some degree what happened in Bihar between 1990 and 2005. However, with respect to two aspects of the Bihar paradox - unclaimed and unspent fiscal transfers and a large number of public sector vacancies - this literature not only explains very little, but it actually predicts the opposite. The expectation is that governments seeking re-election will use all available resources to provide as much as they can to their supporters. Centre–state fiscal transfers and public sector jobs are resources commonly used for this purpose.

I therefore decided to focus my analysis on trends in under-claiming and under-spending GOI transfers. Not only was this aspect of the Bihar paradox counter-intuitive and puzzling, but it also afforded me the opportunity to use hard data to compare Bihar with other states, and thereby hopefully gain some insight into Bihar's particular case.

The central government passes fiscal transfers to states through three routes. Two of these are via Centrally Sponsored Schemes (CSS) and State Plan Allocations (SPA) (see Chapter 4 for a discussion on centre–state fiscal transfers in India). The third is via finance commission mandated transfers. The award amounts of centre–state transfers are substantial. For example, in 2008/9, the GOI transferred a total of £50.86 billion (Rs. 3,814,230 million) to states. Of this, £26.5 billion (Rs. 1,986,890 million) was through the finance commission (52 per cent), £14.4 billion (Rs. 1,080,310 million) was via CSS (28 per cent), and £9.96 billion (Rs. 747,030 million) was through SPA (20 per cent) (Saxena 2009).

There were over 200 CSS active in 2004/5 alone (Verma 2006: 25). Each scheme has a pan-Indian footprint, in that they are implemented in most states according to common

guidelines. Because each state has a different political history within a common federal framework, the way in which different states claim and spend CSS and SPA within their common guidelines begins to approach a type of natural experiment (Harriss 2000).

From my work with the IAS in Bihar, I knew that Bihar was under-claiming and under-spending centre–state fiscal transfers. So, I set out to see if Bihar was unusual compared to other states, in the hope that the answer to this question might provide additional insight into Bihar’s paradoxical governance during Yadav’s stewardship. However, this required comprehensive data sets on CSS and SPA. Unfortunately, I found that very little data on CSS was available in the public domain and what was available within government was scattered. Data in the public domain on SPA was unfortunately dated and thus of little use. I therefore set out to assemble two data sets, one on CSS releases from the Central Government and expenditure by states, and the second on SPA amounts approved by the Planning Commission of India.

To this end, I set myself up as an intern in the Planning Commission during my fieldwork, and worked with the expert group created to recommend restructuring of the CSS by the National Development Council (NDC)<sup>22</sup>. I hoped to use my reach as an IAS officer to contribute to scholarship on India by collecting, collating and presenting data on centre–state fiscal transfers for a majority of states in India. Unfortunately, even with official backing, it was difficult to collect data on the CSS (although SPAs were easier because the Planning Commission maintains a compiled database with this information). This was not because the data did not exist, but because it lay strewn between myriad layers of India’s bureaucracy. The situation was so bad that even a

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<sup>22</sup> The National Development Council (NDC) is chaired by the Prime Minister of India and has all chief ministers, union ministers and all members of the planning commission as its members.

formal request by the Planning Commission on behalf of the NDC expert committee to different departments that were administering the CSS did not yield the desired results (see Annexes 10 and 11). In the end, I had to invoke provisions of India's Right to Information Act (RTI) and the good will of many colleagues to collect the data I was able to. Consequently, a substantial portion of the time and effort put into this thesis, and the contribution of my work, was actually the creation of these two data sets. Chapter 4 has more details.

## **1.6 Preliminary Findings and Additional Research Questions**

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The collection and analysis of the two panel data sets on CSS and SPA helped me to understand how Bihar claimed and spent these transfers in comparison with other states. Importantly, it also allowed me to ask two further questions in order to isolate additional factors that may help explain the Bihar paradox. The first is: what determines differences between Indian states in the extent to which they succeed in claiming and spending the fiscal transfers that are in principle available to them?

Based on a statistical analysis (detailed in Chapter 5), one clear answer to this question appears to be that poorer states are less successful both in claiming and in spending fiscal transfers. This finding has major implications for public policy in India, and is valuable in its own right. It is however, from the perspective of this thesis, largely a by-product of my research method. I therefore do not explore its implications in any detail, except to say that an important objective of fiscal transfers (i.e., to reduce regional disparities) was not being met. On the contrary, it was making inequality worse by diverting unclaimed resources meant for poor states, which typically had poor spending and reporting capacities, to richer states.

However, these regression results enabled me to ask the second and more specific research question about Bihar: given that poor states generally tend to perform worse in claiming and spending fiscal transfers, was Bihar's poor use of fiscal transfers between 1997/8 to 2004/5<sup>23</sup> simply a reflection of its poverty? If that were the case, the poor governance practices of Yadav's regime may not have deprived Bihar of any more development resources than one would expect for such a poor state.

However, through a regression analysis, my research models the extent to which a state government at Bihar's level of rural poverty would under-claim SPA and under-spend CSS grants. Based on these predictions, I find that in practice, Bihar performed *worse* than its poverty would predict. These statistical results alone would not enable me to draw any firm conclusion. However, they are consistent with my field observations about the detrimental character of governance in Bihar under Yadav and the extent of under-claiming and under-spending during his regime.

### **1.7 Explaining the Bihar Paradox**

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As detailed above, a statistical analysis indicates that Bihar's use of fiscal transfers was lower than expected for its level of poverty. However, existing literature on the failure of governments in majority-poor democracies to pursue pro-poor policy is insufficient to explain this anomaly. Thus, it is necessary to look for other factors that may have contributed to the Bihar paradox. I therefore turn to the history of Bihar's governance and recent political economy in an attempt to explain the under-claiming and under-

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<sup>23</sup> I have chosen the period 1997/8 to 2004/5 as a representative sample of my research period from 1990 to 2005. It should be mentioned that, the fact that the state of Jharkhand was carved out of Bihar in 2000 did not affect the quantitative analysis, because the four dependent variables were percentage expenditure, per capita release and per capita spending of CSS and per capita SPA. Similarly all independent variables were also normalised using either population, Gross State Domestic Product (GSDP) or converting the value as a percentage.

spending of centre–state fiscal transfers and the abundant public sector vacancies that characterised Bihar under the Yadav regime.

Informed especially by the changes made in Bihar after 2005—when a new government under the leadership of Nitish Kumar came to power—I argue that the quality of governance under Yadav was worse overall than before and after his reign. However, certain aspects of governance did improve for some groups during this period. I attribute this to the particular political strategy that the ruling party pursued (details are in Chapter 6). This strategy was shaped by caste and electoral arithmetic, and the concerns about insecurity that Muslims and BCs faced on a daily basis. This calculation led to a set of political circumstances where it became expedient to:

- Pay little attention to delivering material 'poverty goods'
- Mobilise particular caste electorates by promising them public sector jobs and *izzat* (a local Urdu word meaning honour or self respect)
- Deny public sector jobs to others (i.e., castes groups that the ruling party did not seek to mobilise)
- Focus the state apparatus on delivering security<sup>24</sup> to Muslims and BCs (while maintaining overall background insecurity, especially for upper castes) rather than on other public sector tasks

Intense factionalism among upper caste leaders and their inability to build bridges with non-upper caste voters meant that Yadav and the RJD could retain office by securing around one third of the votes polled in any election. This was not difficult because his core voters (i.e., BCs, Dalits, and Muslims) together accounted for over three quarters

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<sup>24</sup> This follows from the widespread insecurity and abuse that lower caste members historically experienced at the hands of upper castes. See the quotation by Bhatia (2005) on the following page for an illustration of the kind of security gains that the under-privileged experienced. Chapter 3 also discusses this issue. The fact that the state apparatus focused on delivering security and succeeded in doing so is contrary to the prevailing orthodoxy on Bihar.

of the entire population<sup>25</sup>. Of these, Yadav's own caste and diehard supporters, the Yadavs, were more than 15 per cent (Robin 2009). By preventing communal riots and taking an openly hostile stand against the Bharatiya Janata Party (BJP) and its leader L.K. Advani during the Ram Temple agitation<sup>26</sup>, Yadav also earned the support of many Muslims. By ensuring that upper caste owners of land (landlords) could no longer perpetrate acts of violence against Dalit (SC) landless labourers, he further secured the loyalty of Dalits. The following excerpt from Bhatia (2005), though written in the context of a violent social movement (the Naxalites<sup>27</sup>) in central Bihar, reflects the dramatic security gains made by the poor during the period in question:

Instances of rape of lower caste women have decreased dramatically. Arbitrary beatings are no longer tolerated. Labourers are free to sell their labour to whomever they please. Dalit children are able to go to school. Labourers are able to wear clean clothes, sit in front of their homes on *khatias* (string cots) welcome their guests without interference from the landlords, amongst other gains. All this has come about because the landed are no longer in a position to exercise illegitimate power with impunity. (Bhatia 2005: 1544)

These gains were cemented by giving Muslim and Dalit leaders a role in government as cabinet ministers, and by ensuring that the largely upper caste police and civil officials behaved sympathetically to previously disadvantaged groups:

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<sup>25</sup> These caste groupings are not homogenous categories. For example within the BC category there is a sub category called Most Backward. Furthermore, there are individual castes like Yadav, Kurmi etc., within the backward grouping and others like Dhobi and Musahar within the SC grouping. In terms of political mobilisation, there is always a lot of mixing and matching in terms who supports whom.

<sup>26</sup> In 1984, a movement started under the leadership of L.K. Advani for the construction of a Ram Janmabhoomi temple in the birth place of Lord Ram in Ayodhya. The 16th-century mosque of Babri Masjid which existed on this site was destroyed on December 6, 1992 by Hindu Karsevaks (volunteers) in an attempt to reclaim the land known as Ram Janmabhoomi. The demolition led to several months of inter-communal rioting between Hindu and Muslim communities, causing the death of over 2,000 people.

<sup>27</sup> Group of far-left radical communists, supportive of Maoist political sentiment and ideology.

Despite Bihar's travails, Mr Yadav keeps getting voted back into power. Analysts say this is mainly because Mr Yadav has managed to neatly stitch together a hitherto unbeatable Muslim-Yadav vote bank by empowering and protecting both. (Tewary 2005)<sup>28</sup>

As for BCs, particularly those of the Yadav caste, they believed that their time had come:

Yadavs have rallied behind him because he has made them feel that they rule Bihar as a caste, with even the weakest Yadav flexing muscle physically and metaphorically, Laloo Prasad Yadav<sup>[29]</sup> has played on the fears of the Muslims to get their electoral endorsement. (A. N. Das 2000: 506)

Those belonging to the Yadav caste emerged as the principal source through which citizens and officials could access state resources and benefits. They became the new patrons. Their monopoly extended from birth certificates, to government contracts; from kidnapping for ransom to protection rackets; from sought after assignments in the public sector to protection against punishment for absenteeism. As Bhagat describes

...if you carry a Yadav surname... People will presume that you have got connections and that you can approach political parties. This was the exact opposite 15 to 20 years ago when a Brahmin surname guaranteed a certain stature to you. (2004)

This was achieved by centralising authority and ensuring that only officials from the 'right castes' dominated important positions. If a suitable candidate was not available, the post would be kept vacant or additional charge given to a 'trusted one'. Slowly but steadily, formal channels of supervision broke down and promotion and recruitment to a

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<sup>28</sup> The term 'vote bank' was first used by M. N. Srinivas. It refers to a loyal group of voters, usually from one community (or a combination) who are expected to consistently support a party or a politician.

<sup>29</sup> The official spelling is Lalu not Laloo (Sahay 2004). In quotes where the author has used a spelling other than Lalu, I have been true to the spelling used by that author.



large number of positions were stalled. Vacancies proliferated. As a result, the ability of the state apparatus to deliver on developmental functions deteriorated; grants remained un-used and entitlements went unclaimed.

Yet, in areas where the political incentive for performance survived, there were ‘pockets of productivity’<sup>30</sup>. An example of this duality was the extraordinary success of the police in preventing communal violence, while being hopeless in preventing crime, particularly kidnapping for ransom:

According to former DGP of Bihar D.P. Ojha, the problem is not that there are criminals in Bihar. ‘... The real problem in Bihar is the fact that the criminals have connections ... they are often in government.’... The JD(U)'s Nitish Kumar says, ‘Once Laloo made up his mind to stop communal riots, he succeeded. If he wants to, he can stop the kidnapping too’. (Outlook 2005)<sup>31</sup>

Thus, two factors that contributed to Bihar’s poor state administrative capacity during the period were the large number of public sector vacancies and extreme centralisation in decision-making. In Chapter 6, I argue that this was the unintended consequence of the nature of mobilisation that brought the Yadav regime to power in 1990, and the inability of the regime to change the caste composition of the state bureaucracy. Core supporters did not have the requisite qualifications for middle and senior public sector

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<sup>30</sup> It is well established that even in regions that have poor governance and weak institutions, well-functioning government agencies do exist. Some attribute these pockets of productivity to exceptional leadership and good management. Others, believe that these ‘pockets’ are generated by their place in the country’s political economy. Studies on why ‘pockets of productivity’ emerge in states with poor governance are largely based on case studies. A notable exception is a set of hypotheses based on an inventory of cases (Leonard 2008).

<sup>31</sup> Following his election as chief minister in 2005, Nitish Kumar used the same police force to reduce crime including kidnapping and murder while replicating Yadav’s success with communal riots. See Chapter 6 for details.

jobs, and upper caste dominated institutions of oversight such as the judiciary (the other two being audit and media) would not allow recruitment rules to be broken.

## **1.8 Summary and Organisation of Thesis**

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In summary, I focused my thesis on governance in Bihar during the Yadav regime because I found it odd that under-claiming and under-spending of fiscal transfers, as well as large number of government vacancies, was coupled with credible elections, repeated electoral success for the incumbent party, and a majority of poor voters. I called this the Bihar paradox. To understand the paradox, I first focused on CSS and SPA because I hoped they would provide ‘hard data’ that would be useful to compare Bihar with other states. However, complete, compiled ‘hard data’ was not available, so it was necessary to construct the CSS and SPA datasets. Using this data for a statistical analysis, I was able to confirm that poor states in India claimed and spent less fiscal transfers, and notably that Bihar did worse than its level of poverty would have otherwise predicted. In order to explain this anomaly, I turned to an examination of Bihar’s political economy, and argue that the paradox existed because it was expedient for the ruling coalition to focus the state apparatus on delivering security to core supporters (while maintaining overall insecurity for others), rather than on other public sector tasks.

The organisation of this thesis is intended to provide the reader with an understanding of the Bihar paradox, the methods used to explore it and my research findings.

Following a detailed discussion about alternate explanations on why governments of majority-poor democracies may not pursue pro-poor policies in Chapter 2, Chapter 3 provides the background on Bihar and details of the extent and nature of under-claiming

and under-spending of centre–state fiscal transfers. Chapter 4 discusses the fiscal transfer regime in India and the difficulties involved with putting together the two datasets. Chapter 5 presents the findings from econometric analysis of this data. Chapter 6 details the core argument of the thesis—the political logic of the Bihar government’s under-claiming and under-spending of fiscal transfers and its failure to fill vacancies. Chapter 7 revises the main arguments, summarises the findings and concludes with implications for policy and theory.

## Chapter 2 – Literature Review

The previous chapter introduced the Bihar paradox: the fact that the state, with a majority of poor voters, credible democratic elections and an incumbent party with repeated electoral success, maintained a large number of public sector vacancies and failed to claim or spend centre–state fiscal transfers which could have benefited the poor. A key element of this paradox is that poor voters continued to support a leader and party that did not implement key pro-poor policies and development programmes.

This outcome in Bihar—like many other majority-poor democracies—goes against the expectations of the median voter theorem. The median voter theorem predicts that when the income of the median voter<sup>32</sup> is less than the average of all voters (i.e., when the majority are poor), governments will be responsive to the needs of the poor in a majority-rule society (Rowley et al. 2003). Indeed, pro-poor outcomes are only likely if the poor use their votes to elect candidates and parties committed to their needs, and parties and elected officials respond by crafting policies that address the concerns of the poor. In many cases, however, the poor appear to vote for officials that do not advance their interests, and elected officials seem to divert policies away from the concerns of the poor.

Thus, to better explore the Bihar paradox, it is important to review a wide array of literature that relates to these trends. There is a range of theories that seek to explain why elected officials with dismal pro-poor records remain in power in majority-poor contexts, some of which focus on why poor voters do what they do, while others focus

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<sup>32</sup> Median is the middle of a distribution. It separates the higher half from the lower half.

on the motivations of elected officials who divert policy away from pro-poor agendas. I have highlighted five relevant bodies of literature below, beginning with those that deal with the actions of voters and ending with theories that purport to explain the actions of elected officials. There are certain areas of overlap, to be discussed below:

- *Plurality of concerns*: voters have one or more alternate political concerns that can trump their preference for poverty reduction measures. Religion and race are two examples.
- *Politics of patronage (clientelism)*: voters may cast votes as their patrons direct them. The poor comply because they get locked into patron–client relationships in order to secure basic services not provided by the government, and the opportunity cost of casting their votes independently may be too high to risk.
- *Information problems*: voters (particularly the poor and marginalised) may have difficulties in judging the pro-poor performance of incumbents and the credibility of promises made by challengers.
- *Limited democracy*: the overriding influence of corruption, elite capture and dysfunctional oversight institutions often undermine democratic outcomes. It recognises that voter preferences are only one of many influences determining policy.
- *The politician's dilemma*: politicians' failure to implement pro-poor policies can be the result of rational choices made within institutional contexts that force them to choose immediate political survival over longer run collective interests, including economic development.

Taken together, these bodies of literature contribute to our understanding of why majority-poor democracies may fail to produce governments that focus on issues that matter to the poor. However, while these theories help explain parts of the Bihar paradox, they do not provide mechanisms to explain why the state government under-

claimed and under-spent fiscal transfers and maintained a large number of public sector vacancies. I discuss each below and explain its significant and limitations for this thesis.

## 2.1 Plurality of Concerns

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Oftentimes, the poor do not vote for parties that are committed to poverty reduction and therefore despite their numbers, fail to persuade governments to pursue pro-poor policies. One explanation for this is the salience of political preferences *other* than poverty reduction that shape voting behaviour.

A plurality of concerns manifests itself when political mobilisation becomes possible on more than one issue. In and of itself, having a variety of political concerns and preferences along different dimensions is not a normative issue. However, for the poor, voting along non-economic dimensions may have negative consequences for pro-poor outcomes. As Varshney describes, the poor, like others,

... have multiple selves. They are not only members of a class of poor, but also of linguistic, religious, tribal, and caste communities. Often, their voting, like some others, is identity-based, not class based and so is their mobilization. Multidimensionality is true of nearly everyone nearly all of the time. We all have multiple roles, identities and concerns. They may both overlap and conflict. It is rare that any of us will allow any one role/identity/concern to drive our political action, even rarer for all poor people to do it. Multiple selves drives a wedge between the poor as a class and the poor as a political collectivity, significantly reducing, if not eliminating, pressure on the government to act on behalf of the poor. (Varshney 2000: 3)

This multi dimensionality of concerns allows political parties in majority-poor electorates to win elections without a credible record on pro-poor policies (Roemer 1998). To understand how this works, assume that one party represents those below the

mean income (the poor) and the other party those above the mean income (the rich). If the poor are in a majority and the pro-poor party is running on a platform to increase social security provision by raising taxation levels, then the pro-poor party will most likely receive the support of the poor and win the election. If however, the pro-rich party is running on a platform that includes a religious component salient to various poor communities, some of the poor may vote for the pro-rich party and the pro-poor party may lose.

The literature describes many examples of other 'dimensions' that influence electoral outcomes for the poor. In the United States (US), social issues often trump the economic dimensions and morally conservative, low-income voters often support the Republican Party, although many argue that the Democratic Party has a better record on pro-poor policy (Huber and Stanig 2006). Similarly, rightist parties in Latin America have in general succeeded in attracting poor voters on issues of security and fiscal stability, drawing support away from the leftist parties, which typically have better welfare-supporting records (Acharya et al. 2006).

Another set of examples that demonstrates the inability of poor citizens to pursue their interests is rooted in empirical work with national and cross-country data on ethnic fragmentation. Alesina et al. (1999) use data from urban areas in the US to show that the supply of public goods that benefit the poor, such as education, roads, and sewers, is inversely related to ethnic fragmentation, even after controlling for other socioeconomic and demographic determinants. According to the authors, there are two reasons for this trend:

One is that different ethnic groups have different preferences over which type of public goods to produce with tax revenues. The second is that each ethnic group's utility level for a given public good is reduced if other groups also use it. (Alesina et al. 1999: 1244)

Where ethnic groups are polarized and politicians have ethnic constituencies, the salience of ethnic issues increases and the share of spending on public goods are reduced as public resources are diverted to private patronage (Alesina et al. 1999).

Easterly and Levine (1997) use data from cross-country empirical work in Sub Saharan Africa to show that ethnic diversity can explain the extent to which countries take up public policies that affect poverty reduction, infrastructure and services. Both these studies conclude that increased fragmentation inhibits communities from coming together to force political parties and the state to pursue pro-poor policies.

The evidence from India is similar. Banerjee and Somanathan remind us that ‘Indian society is among the most divided anywhere, and the roots of these divisions go back thousands of years’ (2007: 312). They show how districts with higher ethnic heterogeneity have received lesser public goods. The lower castes have the numbers to vote into office elected officials who will support pro-poor policies, but they have so far focussed on challenging upper caste dominance (Jaffrelot 2003). With religion as another source for political mobilisation, Indian voters and their leaders have been ‘too busy righting all the wrongs of yesterday to focus on what would give them a better tomorrow’ (Banerjee 2004: 209). Evidence from urban slums in Delhi also suggests that differences based on ethnicity, class and gender ‘weaken the ability of communities to unite and demand public goods’ (M. Gupta and Pushkar 2010: 71).



Examples from India provided by Chandra (2004) and described below, highlight the existence of a number of cleavages institutionalised by the Indian state. Though these examples have their origins in demonstrating how cleavages have prevented a breakout of ethnic outbidding<sup>33</sup>, they are important to the current argument as instances of multidimensionality of issues that compromise the ability of the poor to use their numbers to their advantage.

One example of the institutionalisation of cleavages is how the colonial state in India privileged religious identity over other types of identities at the national level, particularly by providing separate communal electorates to Hindus and Muslims since 1909. The post-colonial constitution eliminated these privileges, but institutionalised a number of other crosscutting cleavages such as affirmative action for disadvantaged caste groups, policies on language and creation of new states within the Indian Union (Chandra 2004). The fact that ambiguity over which groups were to be included led to relatively easy amendment procedures provides adequate incentive for mobilisation on these issues.

Language policies also continue to have political salience because the list of official languages in each Indian state continues to be open for negotiation. Even if attaining official language status is not possible for a particular group, recognition as a linguistic minority in a particular state is enough to confer privilege. This provides incentives for politicians to mobilise the electorate along this issue dimension.

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<sup>33</sup> According to theories of ethnic outbidding, ethnic divisions inevitably give rise to more ethnic parties (Horowitz 1985; Rabushka and Shepsle 2009).

Similarly, recognition of statehood became an institutionalised issue dimension because of the Union Government's policy of granting statehood based on ethnicity (articulated as language, tribe and region). This issue continues to play a role in politics in India. In 2000, three new states were formed in response to mass mobilisation. Since 2010, the demand for a new Telengana State to be carved out of Andhra Pradesh has been renewed and continues to draw popular support. As a result '... mobilization around interest politics is weakly represented within the national electoral arena... in contrast, the politics of identity has situated itself pre-eminently within the electoral and party political domain' (Katzenstein et al. 2001: 252).

Under conditions of multiparty competition and a first-past-the-post (FPTP) electoral system, crosscutting cleavages produce fluidity because losers are able to manufacture a majority using other dimensions (Chandra 2004). This has made it easy for political entrepreneurs who choose to work with institutionalised cleavages to make credible promises to voters within the existing rules of the game.

The above theories of the plurality of political concerns and empirical findings from India and across the world offer an explanation for one part of the Bihar paradox: why, despite their dominant numbers, the majority-poor electorate was unable to elect a political party that would pursue policies aimed at poverty reduction. However, they do not illuminate why officials in Bihar under-claimed and under-spent the centre-state fiscal transfers freely available, nor filled the large number of public sector vacancies. Furthermore, the fact that, in Bihar, the class interests of BCs, Dalits and Muslims (all members of the poorest sections of the electorate) were largely in harmony, adds a twist that this literature is unable to explain.

## 2.2 Politics of Patronage (Clientelism)

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Given that the literature related to plurality of political concerns is unable to explain the entire Bihar paradox, I turn to the literature on the politics of patronage and clientelism for greater insight into the inefficacy of the Bihar state government to use fiscal transfers available to it and to fill vacancies in the bureaucracy.

In order to understand the diversity of democratic experiences in general, it is useful to view the interaction between citizens/voters as ‘principals’ and electoral candidates/representatives as their ‘agents’. Kitschelt and Wilkinson (2007: 1) describe this principal-agent interaction in terms of its five features:

- Voters have policy preferences over a range of salient issues
- Politicians who seek office bundle issue positions (i.e., create issue platforms that combine a number of issues they think are salient) and promise to either implement or reject them if voted into office
- Voters base their votes on the extent to which these programmatic bundles relate to their own preferences, as well as the credibility of the office seeker
- Candidates who win elections implement their promises by constantly evaluating the evolving preferences of their current supporters as well as undecided voters
- In subsequent elections, voters hold incumbents accountable for the extent to which they acted on and/or implemented their platforms as office holders or in the opposition

In many polities however, particularly those in the developing world, the above interaction does not reflect the nature of the democratic experience. Instead, the emphasis is on using ‘money, jobs and services in direct exchange for votes’ (Kitschelt and Wilkinson 2007: iii). Indeed,

Economic development is the most commonly confirmed predictor of differential modes of democratic accountability. Affluent democracies and parties appealing to affluent citizens in a democracy tend to operate more through programmatic accountability, while parties in poor democracies and parties appealing to the poorest electoral segments tend to practise clientelism. (Kitschelt and Wilkinson 2007: 24)

India has the largest number of poor people in the world (Sumner 2010) and Bihar has the largest number of poor people in India (Himanshu 2007) (see Chapter 3 for details). Politics of patronage and clientelism (used interchangeably in this thesis)<sup>34</sup> can therefore be expected to thrive in Bihar and may therefore help us understand the paradox in question.

Patronage or clientelism can be defined as the ‘proffering of material goods in return for electoral support, where the criterion for distribution that the patron uses is simply: did you (will you) support me’ (Stokes 2007: 605). This differs from corruption (or ‘campaign finance’ depending on the country), which is the flow of money from private actors and entities to politicians. In some ways, all politics is an attempt to offer material goods and services in exchange for electoral support or votes. A key differentiator of patronage is that this relates to the ‘private goods’ end of the spectrum as opposed to the ‘collective’ or ‘public’ end. Here the spectrum is typically defined as extending from the private, through ‘club’ to the collective or public<sup>35</sup>.

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<sup>34</sup> Unlike the position taken in this thesis, some view patronage—‘the proffering of public resources (most typically, public employment) by office-holders in return for electoral support’—as a distinct form of the broader category of clientelism (Mainwaring 1999: 177; Stokes 2007: 5-6).

<sup>35</sup> Pure public goods are non-excludable and non-rival in consumption. Public goods contrast with private goods. Non-rivalry implies that the consumption of a good or service by one does not jeopardise its use or consumption by another. Non-excludability ensures that one cannot exclude any person from securing the benefits of the public good. Therefore, a consumer may ‘free ride’ on the provision of the public good, securing the benefits but not paying the costs. A lighthouse signal is a classic example of a pure public good, where the provision is both non-rival and non-excludable. An untelevised sports event is an example of a public good where the

Clientelistic exchange is different from general corruption and dysfunctional institutions. The latter are dealt with in the section below on limited democracy. The lack of a personal element and the absence of continuity often distinguish clientelism from general corruption. While particularistic arrangements are not always corrupt, corruption cannot be precluded in such an arrangement. For instance, the allocation of a public resource to favoured clients may not be illegal unless a bribe has been paid to secure this exchange.

Clientelism is also distinct from ‘pork-barrel politics’, which describes the flow of resources and allocations to specific geographies, while the cost is shared by all (Aldrich 1995; cited by Stokes 2007). The distinguishing feature that sets clientelism apart from other forms of materially oriented political strategies is the distributive criteria. For example, in pork-barrel politics, the distributive criterion is, ‘do you live in my electoral district or constituency?’, or in the case of other forms of redistributive politics, ‘do you belong to a class of beneficiaries?’. As opposed to this, in politics of patronage the criteria is ‘did you or will you support me?’. The latter typically excludes non-clients from a class of otherwise eligible beneficiaries (Stokes 2007).

The preceding paragraph focuses on clientelism from the vantage point of the patron, but the client’s view is equally important. For the client, the emphasis is on ‘instrumental friendship’, the protection and benefits that the patron offers (Scott 1972). Clients value these for one of two reasons. One, the benefits are not provided by the state as public goods—for example, the protection from criminality, particularly kidnapping, during Yadav’s domination of politics in Bihar. Two, they cannot be

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provision is non-rival but excludable. A public good that becomes excludable is a club good (e.g. a resident’s association or a public activity that requires a membership fee). Club goods can be thought of as being excludable public goods (McNutt 1999).

purchased because people are poor or because the markets do not exist (Scott 1972). It is largely for this reason that clientelism dominates ‘societies with widespread poverty and with a ineffective state apparatus’ (Stokes 2007).

In addition, there is a distinction in the literature between economic and political monopoly as sources of patronage power. Medina and Stokes (2007) describe ‘economic monopoly’ as being independent of the outcome of an election while ‘political monopoly’ is possible only if the patron has access to public office. An example of economic monopoly is a patron’s monopoly ownership of land because of which landless labourers are dependent on him for employment and often for loans during an emergency. Under conditions of political monopoly, voters could face a collective action problem (Stokes 2007). The voter who votes against the patron when the majority votes for him or her risks retaliation. Therefore, each voter minimises risk when s/he votes for the patron. Since all voters face this same incentive, the patron remains in power even if unpopular.

The collective action problem could be one possible reason for Yadav’s continued electoral success. This would be the case if people voted for him out of fear of reprisal even if he were unpopular. If this were the case, the politics of patronage and the collective action problem, like the plurality of concerns discussed above, could offer an explanation to the part of the Bihar paradox related to continued electoral success.

However, it is less useful in explaining the tendency of Bihar politicians to under-use state resources and leave public sector vacancies. Patronage theory unanimously predicts that patrons’ who hold public office tend to *overuse* the material resources of the state in order to further the patron-client relationship. This was the case in Mexico,

for example, where the Institutional Revolutionary Party (PRI) managed to stay in power long after they lost popularity by doling out state resources (Magaloni 2006). In the US, the literature suggests that

Machines in American cities tended to live beyond their means and the evidence suggests that machines in new nations behave similarly. As a form of rule machines are particularly subject to what Zolberg terms ‘an inflationary process of demand-formation’ and naturally thrive best in a buoyant economy that provides them with a continually expanding store of material incentives to distribute. (Scott 1969: 1157)

Citing the example of the Congress party in the Indian state of Orissa, Scott also explains that Bailey (1963)

portrays Congress' local party leaders as machine brokers in a context where ‘workers and sometimes voters expect some tangible reward, not necessarily a bribe, but assistance of exactly the kind which brokers provide’ (jobs, licenses, welfare payments, etc.). (1969: 1145)

Kitschelt and Wilkinson also suggest that client–patron relationships require the flow of material resources:

Under conditions of democratic competition with full enfranchisement, local exchange networks will rarely suffice to win national elections. Politicians need to organise the flow of material resources across the complex pyramidal network of client – broker – patron exchanges. (Kitschelt and Wilkinson 2007: 8)

Though most theorists agree that patrons who hold public office will use the material resources the state has to offer, country evidence differs as to whether the patronage beneficiaries will be core supporters or swing voters. The latter will *inter alia* be affected by the voting system as well as voter turnout rates. Evidence from the US suggests that core supporters will be the favoured recipients; counties that traditionally

support the governor's party receive larger transfers from the state to local governments (Ansolabehere and Snyder 2006). In Mexico, the evidence is mixed, as both core and swing voters have benefitted. Magaloni (2006) found that the PRI spent little in regions controlled by the opposition, and concentrated instead on regions in which voters would be most likely to defect. However, Yarahuan (2009) found that the PRI favoured its own strongholds. In Peru, anti-poverty program benefits flowed to 'marginal' districts that President Fujimoro had come close to but failed to win (Schady 2000).

The evidence from Argentina is also mixed. Between 1999 and 2001, Weitz-Shapiro (2006) found that the distribution of unemployment-compensation funds was biased in favour of swing districts. Conversely, Stokes (2005) found that Argentine Peronists concentrated on giving inducements to indifferent voters as well as core supporters. Evidence from the state of Madhya Pradesh in India points to concerted efforts by politicians to benefit core supporters and key marginal constituencies. Grants from the Member of Parliament Local Area Development Scheme (MPLADS) followed a clear electoral cycle with core supporters benefiting soon after elections and swing voters as the next elections drew near (V. Singh et al. 2003).

In sum, though there is ambiguity on who will be the beneficiaries of patronage resources at the disposal of the state, there is unanimity that state resources will be used. Herein lies the contradiction between the observations from Bihar and what theory predicts. Huge amounts of unclaimed and unused centre-state fiscal transfers from the central government, particularly CSS grants, remained unused over a fifteen year period when the party led by Lalu Prasad Yadav was repeatedly re-elected despite indications that the economic development of the state was being jeopardised due to political



mismanagement (discussed in Chapter 3). This happened despite various studies showing that many of these CSS schemes in other states 'have been mainly ways of securing votes...' (Wilkinson 2007: 118)

For example, the beneficiaries of the Indira Awaas Yojana (IAY) program (funded by a CSS) to provide subsidised housing were in theory supposed to be selected by the village *gram sabha* (general assembly). In reality, however 'the lists of IAY beneficiaries are often handed to the block level officials by Members of the Legislative Assembly' (R. Nayak et al. 2002: 25). In another example, Wilkinson (2007) studied the state budget of Tamil Nadu to determine how much of the rural development department's schemes represented patronage resources that politicians use to benefit their clients. He read the program rules of each of the schemes in Tamil Nadu government's rural development budget for 1999-2000, and found that against a total of £95 million (@ Rs. 75 to a Pound), MLAs and state representatives to the national parliament (MPs) controlled 32 per cent of all rural development spending in the state. In addition to this, MLAs also indirectly controlled a further 49 per cent through their control of beneficiary selection committees and informal powers to transfer officials who refuse to use these schemes to benefit their supporters.

Describing the distribution of clientelism in India, Wilkinson writes:

The pressure for reform of clientelism in India will not of course be equal all over the country... In some cases, such as Bihar, where levels of economic growth are very low or negative and middle-class out-migration is high, it is hard to see any real push for reform succeeding except in the very long term... (Wilkinson 2007: 138)

According to the politics of patronage argument, misuse, waste and siphoning off are consistent outcomes in a Bihar-type context, however cheap money lying unspent in the governments account is not. The theoretical puzzle that remains is: beyond their failure to spur economic development that might help the poor, why did officials in Bihar under-claim and under-spend centre–state fiscal transfers that are known to benefit powerful interests and serve as valuable patronage resources in other states?

There is one specific line of theory from the literature on the politics of patronage that may still offer an explanation of the continued failure of the regime in Bihar to promote economic development. This is the argument that clientelist parties may have an interest in preventing the development of a region as part of a strategy to remain in power.

Chubb (1981) argues that this happened in Italy's Mezzogiorno region where the Christian Democratic Party, in an effort to perpetuate the conditions of poverty and socioeconomic fragmentation upon which they thrived, worked to keep its supporters poor and dependent. To avoid being undermined by the inevitable processes of social and economic development, patrons, through their control over critical resources, may impede processes of development that transform traditional patron–client ties into modern interest-based parties.

This type of behaviour is something that I observed both during my fieldwork and my civil service career in Bihar. I found that politicians were aware of the benefits of ensuring that citizens were unable to access state resources as entitlements (i.e., on their own because they had a right to). By doing this, they preserved the value of the patronage goods and services they had to offer. There is an often-used word for this in Bihar: *pairavi* (to canvass). Giving a 'recommendation' to get the client's work done is

an important service that patrons provide and therefore patrons have an interest in ensuring that work cannot get done otherwise.

With this line of reasoning, it could be argued that CSS grants went unspent to avoid the contribution they could have made to economic progress, which might have undermined the attraction of the Yadav regime to its core voters. Still, however, this theory does not account for the large number of public sector vacancies that were not used either to improve state capacity or to provide jobs to supporters or swing voters.

### **2.3 Information Problem**

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A third body of literature that may add to our understanding of the Bihar paradox are theories regarding the impact of imperfect information on democratic outcomes.

Fundamentally, the ability of a democratic system to ensure that elected officials represent the best interests of their constituencies hinges on the ability of citizens to adequately judge candidates and make informed decisions before casting their votes.

Thus, a lack of credible information or the unequal distribution of information on candidates' and officials' policy platforms and past performance will disrupt the translation of voter preferences into government policy (Keefer and Khemani 2005).

It stands to reason that citizens need information about the performance of their representatives if they are to hold them to account for their actions in office or in the opposition. Models that treat voters as principals and office holders as agents (principal-agent models) demonstrate the validity of this proposition (Barro 1973; Ferejohn 1986). One of the main tools through which voters receive information is mass media. As such, there is a substantial literature, both from India and around the world

on the role of mass media in reducing corruption (Adsera et al. 2003; Brunetti and Weder 2003) and shaping more responsive governments (Besley and Burgess 2002; Stromberg 2004b). One way in which media coverage influences the behaviour of elected officials is the threat that citizens will use the information provided by the media to reward or punish candidates and political parties at election time. Both Dreze and Sen (1989) and Stromberg (2004a), however, argue that mass media is more likely to be interested in sensational events rather than every day (and I would add ‘complex’) matters like endemic malnutrition or poor quality of classrooms, which have significance particularly for the poor and vulnerable. Still, if mass media were not independent from the state or were inaccessible to marginalised groups, this could have negative implications for representative democracy.

Mass media is not the only source of information nor is the performance of elected officials the only information that citizens need to have. The business of government is a complex one. While it would be unreasonable to expect any lay citizen to be well informed about all aspects of public decision-making, voters need to know enough to get a sense of how well their money is being used to administer the state on their behalf. Evidence from India and the US suggests that voters use daily interactions to decide how to cast their ballots. Krishna (2006) has shown that in India, family, neighbours, influential people and village assemblies are important sources of information and preference formation. Evidence from the US also suggests that voters use very limited information, gained from everyday interactions, and simple voting criteria when deciding how to cast their ballots (Fiorina 1990).

According to Khemani (2007b), the information that citizens in poor and developing countries ‘pick up’ as part of their everyday lives, generates undue public attention to inefficient, and sometimes ineffective, policies of targeted transfers. This results in governments having

... exaggerated preferences for targeted expenditures. For example, a large and disproportionate share of expenditures in health and education typically flows to the salaries of teachers and health workers, yet absenteeism and shirking are rampant, so that no effective services are provided in many cases. (Keefer and Khemani 2005: 3)

Keefer and Khemani (2005) attribute this to two kinds of market failures. One, citizens rarely have access to the comparative, electoral district-level information that is needed to judge how well their elected representative has done compared to others. Two, even if available, citizens may be

... apathetic to using actual development outcomes as an indicator of politician performance, focusing instead on simple actions they can directly observe, such as announcement of a price subsidy or provision of jobs, because they do not expect politicians to be able to improve these difficult outcomes. (Khemani 2007b: 59)

This may lead to a ‘vicious cycle of low performance and low expectations’, and a scramble for ‘private benefits from public resources ... with opposition politicians having trouble mounting a credible challenge on the platform of broad development issues’ (Khemani 2007b: 59).

The information problem discussed above and the ‘low performance, low expectations’ hypothesis provide a useful perspective on the Bihar paradox because they give another plausible reason for the ruling party’s retention of its core constituents even after under-claiming and under-spending substantial amounts of centre–state fiscal transfers.

However, like the theories regarding the plurality of concerns and the politics of patronage, the information problem does very little to improve our understanding of reasons for why the Yadav regime did not fill a large number of vacancies in the public sector. Also while it offers an explanation for why people voted for them even though they didn't spend, it does not tell us why they didn't spend in the first place.

## **2.4 Limited Democracy**

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A fourth body of theory suggests that there are two other reasons why democracy sometimes fails to advance the interests of the poor. The first reason is that a polity may be democratic in veneer but function in a limited, shallow or illiberal way. Such democracies have been given various names, such as 'pseudo-democracies' or 'electoral authoritarian regimes' (Diamond 2002; Schedler 2002). They may have many of the formal features of a democracy like elected representation. Their elections may even be competitive and allow opposition parties to gain control of seats in the national parliament or in provincial governments. However, if the elections are not free and fair, the ruling party in these countries may remain continuously in power. This eliminates a key pathway through which democracy delivers accountability and responsiveness (Diamond 2005). Indeed, limited democracy—characterised by the overriding influence of corruption, elite-capture and dysfunctional institutions—may contribute to a context where majority-poor voters are unable to elect governments that pursue pro-poor policies.

The second reason this body of literature suggests that democracies may be limited in their ability to respond to the needs of the poor is that voters are only one of many influences on policy making in any polity. Logically, voters remain ignorant beyond the

point where the marginal cost of gaining additional political information exceeds marginal benefits. The benefits of additional knowledge are low because an individual has only a miniscule impact on policymaking. This opens the field for policymakers to deviate from citizen preferences, making it possible for interests groups to influence policy instead. Even when politics is competitive, elected officials are therefore willing to distort policies in favour of organised interests. This is often because campaign contributions from interest groups allow candidates to mount larger campaigns at election time and even increase their popularity through side payments to voters funded by interest groups. Rational ignorance and group interests are therefore two further ways in which voters' influence, and thus, democracy itself, is limited (Rowley and Schneider 2004).

In a limited or shallow democracy with weak institutions, the negative impact of corruption on the poor can be grouped into three broad (but not mutually exclusive) categories. The first is economic. Corruption reduces economic efficiency and has a detrimental impact on growth and investment (Knack and Keefer 1995; Mauro 1995, 1998), partly through the diversion of government expenditure towards less productive and easy-to-steal opportunities (Mauro 1998; Tanzi and Davoodi 1997), and by indirectly raising the cost of business and reducing profits in a way that leads to the redirecting of foreign direct investment (Wei 1997).

The second is distributional. Corruption creates distortions that privilege the rich because they can pay the bribes that are needed to benefit from government-provided goods and services (Lui 1985). In this way, 'Corruption is often a highly regressive tax and the poor pay more of their incomes proportionately than do the wealthy and the

middle class' (World Bank 2003: ii). Over time, this results in countries with higher levels of corruption having higher inequality and poverty (Deininger and Squire 1998; Ravallion and Chen 1997).

The third is political. Corruption, elite-capture and dysfunctional institutions can trump the ability of democracy to make democratically elected governments responsive to the interests of poor people on whose electoral support they depend (Diamond 2005; Scott 1969).

The literature on corruption and limited democracy also marks a shift in agency. While the previously discussed theories focus on why poor people may support parties that do not advocate or implement pro-poor policies, limited democracy theories discuss the ways in which politicians who tend to be non-pro poor manage to construct electoral majorities by manipulating the system.

The literature points to a number of ways in which corruption, elite-capture and dysfunctional institutions diminish the potential of democracies to alleviate poverty by reducing the vertical accountability of politicians to their constituents' preferences. One is through parties and candidates obtaining the resources to compete through the sale of political decisions. This kind of corruption in party and campaign finance has a veneer of responsiveness and gives those with the resources a short cut to electoral victory:

... hints of municipal corruption and graft were winked at, even applauded,  
... as the social banditry of an urban Robin Hood in spite of their long-run  
costs to the city... (Scott 1969: 1144)

The poor are the most vulnerable to these kinds of inducements:



Poverty shortens a man's time horizon and maximizes the effectiveness of short-run material inducements. Quite rationally he is willing to accept a job, cash, or simply the promise of assistance when he needs it, in return for his vote and that of his family. (Scott 1969: 1150)

This makes it possible to mobilise impoverished constituencies by distributing state jobs to loyal followers and a dollop of cheap goods to constituents around election time in place of any real policy response to poverty. While these political systems may look democratic, they result in largely corrupt and exploitative governments (Diamond 2005: 410).

Beyond elections (so called ‘vertical accountability’<sup>36</sup>), other hallmarks of a democratic system are the distribution of power and checks and balances it requires to encourage good governance and limit malpractice. This ‘horizontal accountability’ comes through oversight by institutions such as the courts, legislature, audit and the media—all balancing one other. However, when some or all these institutions become dysfunctional, electoral competition alone cannot deliver what democracies should be able to—accountability and responsiveness to the electorate (and particularly the marginalised). When democracy is hollow and poverty endemic, civil society also tends to be weak and insensitive to the needs of the poor. A state apparatus that lacks capacity and credibility can be easily co-opted and captured by the elite, thus increasing the inability of democracy to protect the weak and the vulnerable (Joseph 2003). In countries where rule of law is also weak, the media is compromised and the courts subject to elite capture, the state is often unable to discipline its police forces and break local power monopolies. In such situations, democratic elections alone cannot enforce accountability and make the state responsive.

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<sup>36</sup> For a discussion on vertical and horizontal accountability see (Luckham et al. 2003).

Parts of the limited democracy literature described above are useful as we consider the Bihar paradox. From Chapter 1 we know that state capacity was weak in Bihar, corruption was a reality and the ruling party kept coming back to power despite doing very little in material terms for the poor. However, in important ways this theory still falls short of a complete explanation of the paradox. For example, while the prediction is that the majority-poor electorate would be open to exchanging electoral support for material inducements, something that centre–state fiscal transfers (particularly CSS) offered in plenty, Yadav failed to use them and yet managed to remain in power for an unmatched 15 year period. As with other institutions, both the media and the courts were aggressively against malfeasance and wrong doing, as a result of which Yadav and the chairperson of the Bihar Public Service Commission went to jail for corruption. On the point of elite-capture, the position is quite the opposite at least on the surface, as the Yadav regime did—if nothing else—represent the success of subaltern capture of the state by unseating decades of dominance by a socially and economically powerful elite minority (discussed in Chapter 6). On balance, therefore, theories relating to limited democracy as characterised by corruption, institutional dysfunction, elite-capture and the marginal influence of individual voters leave many questions unanswered.

## **2.5 Politician's Dilemma**

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The fifth and final body of literature that may help unravel the Bihar paradox is that which explores that politician's dilemma. The idea from this theory is that political leaders in poor and underdeveloped regions often face institutional contexts that require them to sacrifice economic development for political gain. The failure to implement pro-poor policies according to this theory is the result of rational choices made by

politicians and bureaucrats who are driven by their need to maximise success in their careers. As Geddes states,

Whatever additional interests they may have, most political leaders want to remain in office. And, generally speaking, their other goals can only be accomplished while in office. Political institutions determine which strategies for staying in office are likely to work... One can explain much of the behaviour of states as the outcome of rational choices by self-interested officials acting within particular institutional and circumstantial contexts. (1994: 8)

Geddes (1994) further discusses four types of political actors and their motivations: 1) legislators, for whom the principal concern is re-election; 2) presidents or the chief executive, who seek to complete their term in office, maximise power within the party and improve chances of re-election; 3) party leaders, who seek to maximise the power of their party and their own power within the party; and 4) bureaucrats, who do their best to hold on to their job and maximise the material advantages that accompany it.

The above analysis has its roots in the unusual behaviour exhibited by governments that, under certain circumstances, affected radical shifts in economic policy without the support of powerful interest groups. Standard political theories, both Marxist and pluralist, see political outcomes as the result of a clash of interests in which the most powerful win. These theories were unable to explain why interests that were considered economically and politically dominant were set aside by these governments to pursue conflicting policies (Geddes 1994).

In Latin America, for example, some governments took up industrialisation efforts that jeopardised the profits of producers of primary product exports at a time when agriculture and mining were economically dominant (Geddes 1994). The interests that

benefitted from this shift in policy were often weak and lacked influence. Yet this did not stop governments from acting with a certain sense of autonomy to achieve policy goals. It is in this context that the notion of state autonomy has assumed significance for scholars, although by itself the notion of state autonomy is anomalous because government policies in a democracy are expected to reflect societal interests. This is the context to the proposition espoused by Geddes, that the state is a collection of self-interested individuals who seek to maximise career success. Indeed,

Within modern democratic regimes, particular institutions, such as electoral rules and party procedures, determine what kinds of behaviour are most likely to contribute to career advancement. By analysing the institutionally determined incentives facing political leaders, one can explain state actions that might be unexpected from the perspective of more traditional approaches. (Geddes 1994: 12)

Thus, when decision-makers can ensure their career advancement by using funds to implement programs or by filling vacancies they will do so. Where politicians' and bureaucrats' interests are furthered by bartering away resources, not using them, or appropriating them selectively for political support, they will do so. The incentives that elected and appointed officials both face, therefore, depend on the political, administrative and social circumstances of a particular environment.

This is a useful vantage point from which to analyse the Bihar paradox because it opens up the possibility of using political incentives as a key to deciphering political action and its administrative consequences. Therefore, the policies that a party will pursue when in office—particularly its stance on the nature and extent of public expenditure and with respect to bureaucratic capacity—will depend on the extent to which such policies further the career interests of the decision-makers. Thus, an alternative path to

understand the two parts of the Bihar Paradox that the review of literature so far has not been able to adequately explain—the failure to use centre-state fiscal transfers and the large number of public sector vacancies—may be to examine the political incentives that could have motivated such behaviour.

This is not to say that social and economic development will always pose a dilemma to elected officials, or that they will have to sacrifice pro-poor policies so as to remain in office. Governments in Latin America have effected radical shifts in economic policy without the support of powerful interest groups (Geddes 1994). The poor and the not so poor ‘middle strata’, may have shared interests that open up the possibility of shared alliances (Nelson 2005). The latter is likely to happen when the gap between incomes and lifestyles of the poor and the middle strata is modest; they are intermingled geographically; they have complementary patterns of income generation and their ethnic, religious and other identities coincide (Nelson 2005). Political leaders are also able to some degree mould the context, through coalition building, managing expectations, good timing, bargaining and even stealth (Ascher 1984; Melo et al. 2011 expected).

It is also not the case that India’s democracy and capitalism invariably imposes constraints on elected officials, forcing them to choose between pro-poor policies and political survival. Kohli (1989) shows how within India in the 1970’s, state governments such as the communist government in West Bengal successfully adopted redistributive pro-poor policies that improved the conditions of sharecroppers. They circumvented issues of state capacity and bureaucratic ineffectiveness by empowering panchayats and getting rid of landlord bias. They did so by getting party sympathisers

elected to panchayats and formally subjecting local and district level bureaucrats to their supervision.

## **2.6 Summary**

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The above theories have provided us with ample rationale for why a majority-poor electorate might have continued to support the RJD, despite the fact that Yadav's regime did not pursue widespread economic development that could have benefitted the poor. It may have been that poor voters were mobilised on issues unrelated to poverty (plurality of concerns), in clientelistic relationships that dictated their votes (patronage), or lacked sufficient information to judge the performance of the regime (information problems). Furthermore, the Yadav government could have remained in power due to corruption, weak institutions, thin accountability or the existence of powerful interest groups (limited democracy).

As discussed, however, few of these theories provide explanations for why the government in Bihar during this time failed to claim and spend large amounts of fiscal transfers while maintaining a bevy of public sector vacancies. Patronage theory suggests that under-use of transfers could have been a means to stall economic development, but does not provide an explanation for the unfilled vacancies. In the end, the concept of the politicians' dilemma provides the most useful vantage point from which to explore the Bihar paradox, including the under-use of centre–state fiscal transfers and the large numbers of public sector vacancies.

Therefore it is from this vantage point that the analysis of this thesis has proceeded to examine the political motivations that may have helped shape the Bihar paradox. For

this examination, it is important to first understand Bihar's deep history as well as the political landscape immediately before, during and after the Yadav regime. These issues will be discussed in brief in the following chapter.

## **Chapter 3 – A Brief History of Politics and Development in Bihar**

There are five characteristics of Bihar before and during Lalu Prasad Yadav's period of dominance that are important to highlight for the argument of this thesis. The first is that Bihar was relatively cursed by history, and was not an example of good governance or social harmony long before Yadav assumed office in 1990. The second is the salience of caste and caste conflict in everyday life in the State. The third is the emergence of BCs as dominant players in politics. The fourth is that BCs and Muslims (the core supporters of the Yadav regime) were poor and socially deprived, and that during the fifteen-year period from 1990 to 2005 when Yadav and the RJD<sup>37</sup> were at the helm, Bihar failed to catch up with the rest of India with respect to a number of social indicators. The fifth and final point is that, during Yadav's leadership, the Bihar Government under-claimed and under-spent substantial amounts of fiscal transfers (mostly CSS grants) from the Central Government that were otherwise available to it. Yadav and his party therefore failed to make a difference to Bihar's backwardness and poverty during their tenure.

### **3.1 Bihar's History of Troubled Governance and Poor State Capacity**

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In this section, I discuss first the history and consequences of Bihar's development and governance during British colonial rule. This is followed by an assessment of the period prior to Yadav becoming chief minister in 1990.

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<sup>37</sup> When Yadav became chief minister of Bihar in 1990, he was leading the Janata Dal party in the state legislature. In 1997, after he became an accused in the fodder scam, he broke away from the Janata Dal and created a new party, the Rashtriya Janata Dal. At the time of submission of this thesis he continues to be its national president.



### **3.1.1 Permanent Settlement and its Consequences**

Following the battle of Buxar in Bihar, the British East India Company secured the *diwani* (overlordship) of Bengal in 1764, which at the time included the present day states of Bihar and Orissa. At that time the term *zamindar* (*Zamīn* is Persian for earth and *dār* is holder) was a generic title given by the Mughals to people with a range of rights and responsibilities, from autonomous or semi-independent chieftains to peasant-proprietors (Habib 1963).

Under the Mughals, zamindars were required to perform certain revenue, police, judicial and military duties. Although zamindar titles were allowed to be held hereditarily, the holders were not considered to be the proprietors of their estates. It was the duty of the *diwan* (the representative of the Mughal empire in Bengal) to ensure that zamindars were neither lax nor overly stringent. However because the Mughal empire was in decline by 1764, the writ of the Mughal state did not extend to many parts of Bihar and supervision was lax. The British found this a difficult and complex system to administer. By 1793, the then governor general Lord Cornwallis introduced the ‘permanent settlement’, under which the rent to be paid by a zamindar to the East India Company was fixed in perpetuity. However, no restriction was placed on the amount of taxes a zamindar could collect. As McPherson describes,

... it was one of the most difficult tasks of early British administrators to reduce the system to order. Ultimately, after numerous temporary adjustments and prolonged discussion, it was decided that it would be in the best interests of the country to place the land revenue demand of Bengal and Bihâr on a fixed basis, and the permanent settlement was accordingly made by Lord Cornwallis in 1793. ... all collecting agents of whatever degree or origin were recognised as landed proprietors... [in the] past 150 years, rental assets have increased at least tenfold... had the permanently settled area of Bihâr been left on the same temporary basis as is established in other parts of India, it would now be producing a revenue of £2 million instead of

the existing £800,000. The difference would have gone far to place the province on its feet financially... (1931: 67)

In addition to reducing uncertainty in the Company's budget, the permanent settlement was intended to draw investments into agriculture. By fixing in perpetuity the land revenue payable by zamindars and allowing them to retain any excess revenue, the expectation was that zamindars would invest surpluses in land or lease out land to other farmers. Instead, most zamindars extracted exorbitant rents from the tenants by delegating the right of rent collection to *amlas* (subordinate agents) who imposed their own arbitrary assessments. Tenants whose rents were low, and therefore could have invested surplus, faced eviction because zamindars were always on the lookout for ways to increase rent. This left only basic subsistence for most tenant farmers, and there was little to spare for effecting improvements in land and living conditions. A large proportion of tenant cultivators barely managed to make ends meet even in good crop years. In bad ones, they had to borrow for subsistence. Once peasants fell into debt, the exorbitant interest rates ensured that they could never get out of it (Sharma 2005). As explained by Das,

... the fact that the system of lease to a burgeoning class of rich peasants did not evolve in Bihar, the pressure of population on the land was much higher in Bihar and there was an 'admittedly lower level of awareness on the part of the Bihar peasantry of their rights' did much to make the system even worse, the tenants even more oppressed, the landlords even stronger and land even a more valuable asset in Bihar than in Bengal. (A. N. Das 1983: 25)

To make matters worse, the zamindars and their *amlas* extracted agricultural surplus in other forms, such as *abwabs* (various extra-legal demands). *Zulum* (physical maltreatment and oppression) of agricultural workers while extracting labour rent

through *beggar* (unpaid forced labour) was common. Customarily, the zamindar had first claim on the tenants' labour and this was extracted ruthlessly (Hauser 1961; cited in Sharma 2005). The permanent settlement therefore produced an extremely exploitative agrarian structure in the countryside of Bihar, and zamindars had complete political and economic control over a pauperised peasantry.

Permanent settlement therefore failed to create agrarian surplus that could go on to become the basis for primary accumulation and subsequent diversification of the economy. Consequently, Bihar, in spite of its rich mineral endowments and agricultural potential, remained a source of raw material and labour for capital accumulation and diversification of production in other parts of India and the British Empire.

Permanent settlement and the delegation of revenue administration to zamindars had another ramification that was important from the perspective of state capacity. It meant that the colonial system of revenue administration did not penetrate this region. The fact that land revenue was fixed also implied that the revenue generation capacity of the provincial government was limited. This resulted in lower government expenditure. The accumulated effect of this low expenditure and the absence of a properly laid out system of land records and revenue administration led to vastly poor state capacity that had serious and long term implications for Bihar's post-independence development:

Low expenditure on creation of administrative capacity during the colonial period was thus a direct fallout of the minimalist presence of institutions of the State at the district and lower levels. The Memorandum for the Indian Statutory Commission (1930) on the 'Working of the Reforms in Bihar and Orissa' noted that the standard expenditure of Bihar and Orissa, worked out on the basis of actual expenditure prior to 1912, came to just Rs 8 lakh per million of the population against Rs 13 lakh per million of the population in Bengal. It must be noted that the expenditure on administration in Bengal itself was the lowest in British India as compared to the Bombay or the

Madras Presidencies; and within this low expenditure, Bihar was accorded the lowest priority. This led to a relative deficit of institutional capacity for governance in Bihar as compared to the other states of India during the colonial period. (Bihar Government 2008: 2)

The impact of land tenure systems and the production relations it created have had a lasting influence on the level of development not only in Bihar. Other areas in India in which proprietary rights in land remained with zamindars during British rule have also been found to have significantly lower agricultural investments and productivity as late as 1991. These areas have significantly lower investments in health and education:

We compare the present-day economic performance of different districts of India, which were placed under different land revenue systems by British colonial rulers as a result of certain historical accidents. We show that districts in India where the collection of land revenue from the cultivators was assigned to a class of landlords systematically underperform the districts where this type of intermediation was avoided, after controlling for a wide range of geographical differences. The differences show up in agricultural investment and yields, in various measures of public investment in education and health, as well as in health and educational outcomes. For example, the average yield of wheat is 23 per cent higher and infant mortality is 40 per cent lower in non-landlord districts. (Banerjee and Iyer 2005: 1190)

Banerjee and Iyer (2005) attribute this lower spending to the political environment, particularly differences in the nature of collective action caused by a climate of conflict. This is also correlated with levels of crime; districts that were subject to zamindari rule have significantly higher levels of violent crime such as murder, rape and kidnapping (Banerjee and Iyer 2005).

After independence, attempts at land and tenure reform in Bihar remained a partially fulfilled promise due to impediments raised by the political elite who had vested interests in land and the patron-client relationships that sustained their politics. This

perpetuated the social relations inherited from the colonial legacy. The exercise of arbitrary power by upper-caste landlords (see section on salience of caste later in this chapter) gave rise to caste-based resentment which proved to be fertile ground for the growth of peasant movements (Brass 1994). This also formed the background against which political entrepreneurs like Yadav mobilised public opinion around the idea of izzat.

### ***3.1.2 Bihar Post-Independence***

For the 14 years following Indian independence in 1947, before the death of its first chief minister in 1961, Bihar experienced political stability and stable governance. However, the state's long standing problem of a lack of investible surplus and under-investment continued due to the Freight Equalization Policy established in 1948 by the new government in Delhi. Under this policy (which lasted until 1991), for the consumption of every unit of a key input like steel, the responsible industry in Bihar had to subsidize its competitors in more developed states by paying a freight element<sup>38</sup> in the price of steel which would otherwise have been paid by the industries in more distant locations. Thus, the barriers to growth and development that Bihar experienced during the colonial period continued to adversely affect the State even in the post-independence period. This policy accentuated the existing regional inequality in industrial production by distorting the comparative cost of location for industries that used the freight-equalized commodities as inputs. Thus, there was no incentive for industrial capital to come to places like Bihar which had a rich mineral resource base but poor infrastructure. A bizarre consequence of this policy was that cost-disabilities of

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<sup>38</sup> This was the indirect effect of the landed price being the same all over India. According to this arrangement, whether you had steel delivered to your premises outside the steel factory gate, or to a place 2000 kms away, you paid the same price.

industrial production centres located in developed states were subsidized by resource rich and backward states like Bihar (Bihar Government 2008).

Long before Yadav assumed power as the chief minister of Bihar in 1990, the state administration had been plagued by political instability. No chief minister since 1961 had lasted a full five-year term. In fact, only two had even completed three years in office. Writing about the deterioration in the administration of Bihar, P.S. Appu, a widely respected chief secretary (head of the civil service<sup>39</sup>) wrote:

Group rivalry rooted in caste conflict was a significant feature of the Congress party in Bihar before and after independence. The implacable antagonism between the two dominant upper castes of Bhumihars and Rajputs was at the core of the infighting in the Party... I witnessed the gradual decline ... during the period 1962-1970 when I worked as Secretary to Government ... In August 1975 I returned to Bihar. The Administration had degenerated further ... Despite my best efforts I did not succeed in making much improvement during my tenure as Chief Secretary... During the next two decades Bihar acquired the reputation of being one of the worst administered in the country... (Appu 2002)

In 1967/8, Bihar faced the spectre of widespread drought and famine. On 20 April 1967, the State Government declared famine in two districts of Palamau and Hazaribagh. By 25 May, 36 per cent of Bihar state was declared to be undergoing famine and 30 per cent to be suffering from scarcity. Thirty four million people were affected, of whom 13.4 million were in the famine area (Brass 1986).

Reporting on the state administration during that period, the Economic and Political Weekly wrote:

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<sup>39</sup> P.S. Appu belonged to the 1951 batch of the Bihar cadre of the IAS. He became chief secretary of Bihar in 1977.

State Government had been without a Chief Secretary for months. But the degree of amenability of the candidate officers, their civil service seniorities and their caste were all in the wrong order. The caste-cum-power factions in the Bihar cabinet became active over the issue and the choice hung in the balance for 4 months... Union Secretaries<sup>[40]</sup> confirmed the total failure of leadership both in the Government and in the administration in Bihar. President's rule reared its ugly head but no one wanted to face it. (Anonymous 1966: 657)

In a subsequent analysis of the same period, Brass wrote that

The central actor in the drama of the Bihar Famine was the state government and administration, whose responsibility it was to assess the developing situation, to take the preventive measures that were possible, to organize relief measures to minimize the suffering of the people of the state... The quality of the Bihar administration, which once had had a reputation for being among the most efficient in the country<sup>[41]</sup>, had also deteriorated, especially since the death of Sri Krishna Sinha. The state administration lacked the confidence of the state government and was the butt of criticism in the local press. The central government also had little confidence in the ability of the Bihar administration to cope efficiently and impartially with a major crisis such as a drought (Brass 1986: 247).

In many other spheres as well, government's performance left much to be desired:

The failure of governmental rural development efforts in Bihar is another example. It is well known that at the local level programmes mounted in Patna (or in New Delhi) have been taken over by local elites and perverted by them to their own ends ... big farmer elites have been afraid that if the rural economy did expand, they would lose their control over it. By taking over and milking community development, co-operatives, panchayati raj, minor irrigation and all the other programmes, they assured that very little

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<sup>40</sup> These are positions equivalent to that of a permanent secretary in Britain.

<sup>41</sup> This is the popular perception about public administration in Bihar. Many including the Prime Minister of India cite Appleby (1953, 1956) to say '...Bihar, in 1950 was described as the second-best governed state in the very famous Paul Appleby Report ... This is worthy of exploration, why a state like Bihar has not been able to catch up with the rest of the world' (Prime Minister Manmohan Singh 2006). However, despite the fact that Appleby myth has been around for so long that it had become part of 'routinised common sense', the Appleby source was verified in 2006 and found to be baseless. The following is what was written in response: '... where in his two reports did Appleby rank Bihar as the second-best governed state? I have read both reports and can't find it... in the 1950s, this business of cross-country or inter-state rankings wasn't that fashionable... I can find no rankings in the first report, nor anything that is specific to Bihar... I have also gone through three papers Appleby published in the Indian Journal of Public Administration and can find no such references there either' (Debroy 2006).

development ever occurred and that their own control endured... With the main power groups at the state level and in the countryside both wanting above all to maintain their control, and both being composed primarily of the same caste groups, it is not surprising that a tacit arrangement developed between them, whereby each assisted the other. The big farmers kept order in the mofussil through their sharecropping, money-lending, patron-client relationships and enforcers. They also mobilised their retainers, followers and dependents in electoral support of the dominant groups in Patna (Blair 1980).

My own experience in the IAS in the mid-1980s was not different. Public administration was deeply influenced by competing caste interests and factional leaders within the ruling congress party. The caste of the officer was the most important criteria in civil service postings. Oftentimes, political expediency required posting someone who was not seen as being beholden to local caste interests, and personnel managers would turn to an officer from outside the state, typically a south Indian. My own postings invariably followed this pattern. As a south-Indian Christian, I was the most suitable person for tackling riots, floods, droughts and when officers from locally important castes were found to be quarrelling over the spoils of office!

### **3.2 Salience of Caste in Everyday Life and Politics**

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In this section I discuss the meaning of caste and its impact on everyday life and politics in Bihar. In particular, it is important to explain how the long history of social, economic and political domination by an upper-caste minority provided a fertile ground for mobilisation based on grievance by a political entrepreneur such as Lalu Prasad Yadav.



### 3.2.1 A Brief Introduction to Caste

Caste as a word was first used by the Portuguese to label the complex social situations they encountered during their early trips to India. Today it is a popular term that is used to indicate social status rather than the classical *varna*<sup>42</sup> (classification based on occupation) (A. N. Das 1984). Caste therefore works as an identity. And, like all identities, it can be a very simple conception and yet complex, variable and contested in practise. As Blair writes:

In the North American and Western European democracies, the articulating groups in the modern period have been mainly secondary associations. Primary groups, particularly those based on religion and ethnicity, are of great importance in some spheres of Western political life, to be sure; but it is the secondary groupings that form the greater and more influential portion of the articulation and aggregation structure in the West. In developing nations, on the other hand, secondary associations are notoriously underdeveloped... the political system must fall back upon primary groups if the articulation process is to take place at all. Religion, language, culture, and race are all important cleavages producing primary groups at the national level in India, and in some measure at the state level as well. But at the local level, where these other divisions do not exist for the most part, the caste system produces the most significant cleavage. Indeed, there are few if any aspects of social existence that are not bound up in some way with the caste system. Religion, economic activity, social intercourse, political power—all are intimately connected with it. (Blair 1972: 108)

Church (1984) advocates a grouping of castes that is different from the traditional *varna* to make the point that there is a 'crisis of participation' amongst lower castes.

According to him the 'upper castes' - Brahmins, Kshatriyas and Banias dominated society and politics as landlords, businessmen and professionals. The 'middle castes' are the farming castes (Jats, Yadavs and Kurmis in the north and Marathas in Maharashtra). According to the *varna* tradition these groups are classified as Sudras—

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<sup>42</sup> The terms *varna* (general classification based on occupation) and *jati* (caste) are two distinct concepts. *Varna* (from Sanskrit, literally "arrangement") is usually a unification of all the castes or *jatis* into four groups: Brahmin, Kshatriya, Vaishya, Shudra.

those below the twice-born and above the untouchables. They are politically important because of their numbers and proximity to land. At the bottom of the traditional status hierarchy are the SCs, the former untouchables. The SCs are agricultural labourers and have special constitutional protection and privileges in post independent India.

According to Church there is another category, what he calls 'lower castes'. They form an economic and social stratum which is sandwiched between the 'middle castes' above them and the SCs below. They are typically marginal farmers, share-croppers and landless labourers from low status agricultural castes together with traditional service and artisan castes (barbers, boatmen, blacksmiths, carpenters, cobblers, oil-pressers, and so on).

Because these individual 'lower castes' are usually small and widely dispersed, as well as poor, they have not developed a common sense of identity or been able to assert political power. Church argues that a useful way to classify states in India is to look at the extent to which each of these groups have attained political power that is commensurate with their numbers. He also predicts that the groups that will be the last to experience political empowerment will be these 'lower castes', rather than the lower SCs.

This is a useful vantage point from which to approach the study of politics in Bihar because we will see later in this chapter that there were three distinct phases in the ascendancy of BCs in Bihar's politics and how these correspond to Church's conception.

### **3.2.2 Caste and Politics in India**

Caste identity has been an important feature of Indian politics. In political mobilisation, caste interests combine and recombine with interests of other identities and issues, giving Indian politics its centripetal ability to stay away from extremist positions. As Manor puts it:

Indians tend not to fix on any one of these identities fiercely and permanently, as groups in places like Sri Lanka have done. They tend instead to shift their preoccupations, readily and often, from one identity to another, and then another, in response to changing circumstances. As a result, tensions do not become concentrated along a single fault-line in society, and do not produce prolonged and intractable conflict-'ethnic' or otherwise-that might tear democratic institutions apart. (1996: 463)

Caste became politicised when both the colonial and post-independent governments in India used it in public policy at various times along with other forms of identity such as religion, language and region (recall the discussion in Chapter 2 on plurality of concerns). But in Bihar it took on a particularly virulent form:

In Bihar, one cannot but come across the phenomenon of caste in its most virulent form: it attacks the senses in an almost physical manner like an odour emanating from the putrefying mess that the state has converted itself into. (A. N. Das 1984: 1616)

Thanks to a history of inequality and dominance, Bihar has been the site of intense caste conflict. Stray incidents of upper-caste oppression of others exist even today, after twenty years of BC-domination of politics (discussed later in this chapter). The following example is indicative of how bad the situation was when upper castes dominated politics prior to 1990:

... Ramnagar<sup>[43]</sup> in Lakhisarai district, where higher-caste men of the village allegedly raped six Dalit women at gunpoint. The apparent provocation: the Dalit women voted for a candidate other than the one recommended by members of the higher castes... caste imbalances, discrimination and power play remain central to Bihar society in spite of the significant gains made by the politics of social justice in the past few decades. (Ramakrishnan 2006)

The following excerpt shows the extent to which low castes have been socially discriminated:

Such was the stranglehold of the feudal order in the village that upper caste landlords were supposed to have an undisputed right over Dalits and Backward Caste women. The right had been institutionalised by the landlords through the system of *dola* by which every newly married Dalit woman had to pass her first night after marriage with the village landlord. Thus those escaped being raped by the landlords had to undergo the trauma after getting married. These were the extra-economic methods devised by the landlords to continuously remind those lower in the caste and class hierarchy of their *aukat*<sup>[44]</sup>. (Bharti 1990: 980)

To understand why this was so, we must understand the relationship between caste and class in Bihar and the consequences of British rule. There is a rich discussion on this for example in (Chakravarti 2001), however, I provide only a simplified summary because my purpose is limited to explaining the rationale behind the support enjoyed by a party and leadership that did so little for poverty, literacy and incomes.

Some scholars have argued that British rule undermined the economic significance of caste by bringing in industrialisation, western education, monetisation of the economy and the growth of occupations based on impersonal qualifications that eroded this relationship to a small degree (Beteille 1975; Bose 1975; Habib 1995; Srinivas 1966).

However, because economic development was slow and opportunity for education

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<sup>43</sup> The Ramnagar incident happened on the night of 6 August 2006.

<sup>44</sup> Socio-economic status as a person of low standing.

limited, the range of occupational opportunities available in Bihar was restricted, and caste continued to be a dominating factor in determining whether a person or group had access to productive resources or was at the receiving end of a relationship based on exploitation (Chakravarti 2001).

Analysts make two broad and contradictory arguments about caste in Bihar:

- Caste is a mode of expression of class interests.
- Caste is one of many identities in Indian politics. It interacts with other kinds of identity interests such as religion, ethnic, racial, agrarian, class to define the Indian social and political experience.

Each perspective is discussed below.

### **3.2.2.1 Caste as Class:**

Because caste is a convenient concept for social reporting, analysts often overlook evidence that indicates that caste-based mobilisation is oftentimes simply the articulation of the collective interest of a group or a collection of groups. Marxists scholars however, do not. They believe that the only real and enduring interests are class interests. Accordingly, they view caste-based mobilisation as merely the articulation of class interests:

... when scholars throw their finely meshed sociological nets into the stagnant waters of Bihar's society, they draw out not class but the familiar fishes of 'caste' and 'tribe'... (A. N. Das 1984: 1616)

Those who subscribe to the caste-as-class view use the example of the Kurmis caste to show how different groups came together to further their economic/class interests. The Kurmis until late 19<sup>th</sup> century were considered to be a 'criminal tribe' in the official

records, and were not allowed to join the police or army. In 1894, the Awadhias of Patna, the Dhanuks of North Bihar and the Mahtos of Chotanagpur came together to form the All-India Kurmi Mahasabha (A. N. Das 1984). Until then, they were separate groups with inter-dining and inter-marriage customarily prohibited between them. Subsequently, they even tried to widen their group by including Marathas from as far as Maharashtra. With no common taboos, rituals, religious observances or ethnic identities, they came together because they were peasant farmers who worked their own land. As such, ‘... the grouping was more akin to the concept of class-in-the-making than that of a ready-made caste’ (A. N. Das 1984: 1618).

Another trend that Marxist scholars identify is exemplified by the spate of killings that erupted in the 1970’s, when discontent among the rural poor had increased dramatically. Although this was described by many as atrocities against Harijans, they were in fact ‘bloody testimonies of class war going on in Bihar’ (A. N. Das 1984: 1619). Killers included Kurmis, Rajputs and Brahmins and victims were Harijan, Yadav and Sonar sharecroppers and agriculture labourers. Das articulates the caste-as-class point of view across very succinctly when he wrote ‘Thus, it is only when we see the Harijans as landless peasants or sharecroppers that we can begin to understand the real character of the so-called “atrocities against Harijans” for what they really are — symptoms of class war’ (A. N. Das 1984: 1619).

The above is a reductionist view of what is otherwise a complex relationship. It misses the point that both class and caste are social constructions. Both are concepts that we can either accept or ignore, yet nothing will change on the ground!

### **3.2.2.2 Caste as a Vehicle for Articulation of Common Interests:**

The notion of caste as one of many identities regards caste as the expression of secular interests, a tool for political mobilisation rather than a matter of ritual distance (Crossette 1996). Hauser (1997) argues that caste is neither as unique nor as static and unchangeable as is often assumed. Caste is also not the only identity that has mattered in Indian politics. It interacts with many different kinds of identity interests such as religious, sectarian, ethnic, racial, agrarian and class. In doing so, caste distinguishes itself from the idea of caste as class where caste is seen as simply an expression of class interests.

Hauser (1997) also argues that there is nothing new about the use of caste for political mobilisation in India. Even as early as 1929, after the Lahore session of the Indian National Congress, both Rajendra Prasad and Swami Sahajanand Saraswati had held the view that caste was being employed in new and complex ways, as instruments of cross cutting political mobilization. The emphasis on caste as a tool for political mobilisation that we see in Bihar today therefore has a long history dating back to the politics of India's independence movement.

## **3.3 Backward Caste ascendancy in politics**

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The issue of discrimination against Dalits and BCs was a pan-Indian problem. Given their connection with land and their large numbers, the BCs were successful in asserting themselves. Dalits had constitutional protection and benefitted from affirmative action from the State. However, the pace at which BCs experienced political empowerment varied from state to state. For example, the situation in the State of Kerala, one of earlier adopters of increased rights for lower castes, was at one time as bad if not worse than

Bihar. When in 1800 the British political resident assumed office in the princely state of Travancore (now part of Kerala) he saw that:

Men polluted their caste superiors not merely on touch but on sight. In the extreme case, a *Pulaya* was said to pollute a *Nambudiri Brahmin* from 95 paces. When the *Nairs* walk along a street or road, ... they shout to the low caste folk to get out of their way; this they do, and if one will not, the *Nayre* may kill him without punishment ... *Ezhavas*, though regarded as polluting by caste- Hindus, enjoyed superior status... An *Ezhava* was said to pollute a *Nambudiri Brahmin* from 32 feet and a *Nair* from 12, and considered himself polluted by the approach of one of the ex-slave castes. (Jeffrey 1976: 5-6)

However with the spread of education and increasing affluence due to growing trade in spices and other industries, the situation began to change. By 1918, the League for Equal Civic Rights was formed in Kerala to agitate for the opening of all branches of government service to Christians, Muslims and non-upper caste Hindus, and the ending of untouchability. By 1922, the league succeeded and by 1925, the first Christian district officer was appointed. The fight against untouchability, however, took longer. On 30 March 1924, the famous 'Vaikom Satyagraha'<sup>45</sup> that demanded access to roads around temples for non-upper castes began. Though it lasted for 20 months, it was only by 1936 that a proclamation was issued to open all government temples in the state to all Hindus irrespective of their caste (Jeffrey 1976).

Bihar, in contrast, was a late reformer. Even as late as 1952, with only 14 per cent share in population, upper castes had 46 per cent share of seats in the Bihar state legislative assembly (Robin 2009). The first signs of challenge to the upper-caste hegemony were

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<sup>45</sup> Satyagraha is a form of non-violent protest made popular by Gandhi during the struggle for Indian independence. In the town of Vaikom, low caste and upper caste Hindus jointly offered to be arrested as they symbolically attempted to enter the roads adjoining the Shiva temple. They were protesting against untouchability and the law that prevented low caste Hindus from using roads near temples and worshiping in them.



visible only in 1977, when the first non-Congress Party, non-upper caste chief minister assumed office. However, with an economy that had no particular stimulus for growth and very little investment in infrastructure or social development, both politics and society in Bihar continued to be dominated by upper caste interests. Given the large number of factions in the Congress party (which was in power for most of the period until 1990), contending upper caste factional leaders began to co-opt lower caste leaders to make up for the lack of numerical strength of upper caste voters. Drawing strength from their numbers within the electorate, BC leaders slowly began to assert themselves as political leaders in their own right. This led to political polarization in Bihar on a backward vs. forward (upper caste) basis, because the resentment and grievance of backward caste voters was a low hanging fruit waiting to be used for political mobilisation.

Bihar was also the cradle of the socialist movement in India with leaders such as Jayaprakash Narayan<sup>46</sup> and Karpoori Thakur<sup>47</sup>. Their efforts led to the political mobilization of an anti-upper caste voter block led largely by BCs. Before long, the number of non-upper caste MLAs began to rise and those from the upper castes began to fall. The ascendancy of BCs in Bihar can be divided into three phases. Phase one was from 1977 to 1990. In 1977, Karpoori Thakur became chief minister for the second time and the number of BC MLAs had begun to go up. Reservations for BCs in government employment were announced. Phase two began in 1990, when, for the first time, the

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<sup>46</sup> Jayaprakash Narayan widely known as JP or Loknayak (leader of the masses), was an Indian independence activist, remembered for leading the opposition to Indira Gandhi the then Prime Minister of India in the 1970s when she declared an internal emergency. In 1998, he was posthumously awarded the Bharat Ratna, India's highest civilian award.

<sup>47</sup> Karpoori Thakur became the first non-congress chief minister of Bihar in 1970. He became chief minister for a second time in 1977 when he introduced reservations for BCs in Government jobs, in 1978.

percentage of upper caste members in the Bihar's legislative assembly fell to 35 per cent, equalling the rising share of BC members (not including SC, ST and Muslim members). In keeping with this trend, after the 1995 elections the share of upper caste MLAs went down to 22 per cent and in 2000 to 23 per cent<sup>48</sup>(Robin 2009). Phase three began in 2005. By then, a new political settlement had emerged in Bihar in which upper castes were able to increase the number of MLAs to 30 per cent by entering into an alliance with the group that Church (1984) called 'lower castes'—those below the agricultural middle castes and above the SCs. They adopted an agenda for inclusive growth and good governance under the leadership of a much applauded chief minister, Nitish Kumar. In this new dispensation, 'middle castes' minus the Yadavs, Mahadalits (SCs minus the Paswans) and 'lower castes' (as described by Church) came together to break the 15 year (1990-2005) Muslim-Yadav domination of Bihar's politics.

### **3.4 Bihar: Poor and Backward**

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In the previous three sections, I described how, before Lalu Prasad Yadav came to power in 1990, Bihar was relatively cursed by a history of poor governance, that caste and caste conflict were an everyday reality and that BCs had begun to emerge as a political force in Bihar beginning in the mid- to late-20<sup>th</sup> century. In this section, I turn more specifically to trends in poverty levels, economic development and state capacity during the 1990-2005 period to show that:

- BCs and Muslims, the core supporters of Lalu Prasad Yadav were economically under privileged

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<sup>48</sup> It increased to 25 per cent with bifurcation of the state in November 2000. Caste and community wise details of Bihar MLA's from 1952 can be seen in Annexure 8.

- At the time that Lalu Prasad Yadav became chief minister, Bihar had a poor record with respect to poverty, illiteracy, per capita income and government capacity compared with other Indian states
- Under Lalu Prasad Yadav's stewardship, Bihar's situation with respect to poverty, illiteracy, per capita income and government capacity either showed very little improvement or declined

### **3.4.1 Who Are the Poor?**

According to the 1931 census<sup>49</sup>, BCs, SCs and STs accounted for 64 per cent of Bihar's population. Muslims, who were also largely under privileged, were another 14 per cent<sup>50</sup>. The percentage of upper castes were only 14 per cent (Robin 2009). More recent estimates put the number of BCs at 52 per cent and Muslims at 16 per cent (Deshingkar et al. 2006). In Bihar, caste and socio-economic status tend to overlap. According to the 55<sup>th</sup> round of the National Sample Survey (NSS) undertaken in 2000, only 11 per cent of BCs and only 9 per cent of SCs in urban Bihar had a monthly per capita consumer expenditure of Rs. 775 or more, whereas 32 per cent of upper castes had this same level of consumption. The situation in rural areas was similar. Against 8 per cent of upper castes who had a monthly per capita consumer expenditure of Rs. 775 or more, only 4 per cent of BCs and 3 per cent of SCs had reached this level (National Sample Survey Organisation 2001b: 53-60). In the case of Muslims, it is estimated that 50 per cent of rural and 45 per cent of urban households live below the official poverty line (Deshingkar et al. 2006). All of this meant that in Bihar, the majority in electoral terms were poor, and most of the poor were non-upper caste. The significance of this in terms

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<sup>49</sup> The Indian census is held every 10 years. However, 1931 was the last year in which caste details of the entire population was collected. 1931 is therefore the closest we can get to know the population shares of each caste with a degree of certainty. For these numbers to be valid at any later date we need to make the assumption that migration and population growth rates were the same across different caste groups between 1931 and the date for which we intend to use this data.

<sup>50</sup> For caste and community wise-details see Annexure 1.

of the argument of this thesis is that BCs and Muslims, the core supporters of Lalu Prasad Yadav, were economically under-privileged.

### **3.4.2 Bihar's Situation when Yadav Took Power**

As measured by poverty levels, per capita income, illiteracy and government capacity, Bihar's situation during the early years of Yadav's first term in office beginning in 1990 was dismal (Guruswamy and Kaul 2002; Kumar 2005; Sharma 2005; N. K. Singh 2005; World Bank 2005). Each of these statistics is discussed below.

#### **3.4.2.1 Poverty**

In 1993/4, the combined state of Bihar<sup>51</sup> had the largest proportion of rural poor in the country (M. S. Ahluwalia 2000; Deaton and Dreze 2002; Himanshu 2007). Table 3.1 below has data on rural poverty over a 21-year period. In 1993/4, with 57 per cent of Bihar's and 62 per cent of Jharkhand's rural population living in poverty, the combined state of Bihar was the only state where the majority of the rural population was poor. This was also substantially higher than the all-India average, of 37 per cent at the time.

**Table 3.1 Per cent of rural population below the official poverty line**

| <b>States</b>  | <b>1983</b> | <b>1987-88</b> | <b>1993-94</b> | <b>2004-05</b> |
|----------------|-------------|----------------|----------------|----------------|
| Bihar          | 65          | 54             | 57             | 42             |
| Jharkhand      | 66          | 53             | 62             | 43             |
| Madhya Pradesh | 49          | 40             | 39             | 36             |
| Chhattisgarh   | 51          | 47             | 44             | 42             |

<sup>51</sup> In 2000, the states of Jharkhand, Chhattisgarh and Uttaranchal were carved out of Bihar, Madhya Pradesh and Uttar Pradesh respectively. To calculate parent state totals prior to 2000, figures from the new states will have to be added. For most of the data used in this thesis, the division of the state has not been a problem because percentage numbers have been used.

|                  |           |           |           |           |
|------------------|-----------|-----------|-----------|-----------|
| Assam            | 45        | 39        | 45        | 22        |
| Rajasthan        | 35        | 33        | 26        | 19        |
| Orissa           | 68        | 59        | 50        | 47        |
| Uttar Pradesh    | 48        | 43        | 43        | 34        |
| Uttaranchal      | 25        | 13        | 25        | 15        |
| Gujarat          | 29        | 28        | 22        | 19        |
| Haryana          | 22        | 15        | 28        | 14        |
| Himachal Pradesh | 17        | 17        | 30        | 11        |
| Karnataka        | 36        | 33        | 30        | 20        |
| Kerala           | 40        | 29        | 25        | 13        |
| Andhra Pradesh   | 27        | 21        | 16        | 11        |
| Maharashtra      | 46        | 41        | 38        | 30        |
| Punjab           | 14        | 13        | 12        | 10        |
| Tamil Nadu       | 55        | 46        | 33        | 23        |
| West Bengal      | 64        | 49        | 41        | 29        |
| <b>ALL INDIA</b> | <b>47</b> | <b>39</b> | <b>37</b> | <b>29</b> |

*Adapted from Himanshu (2007: 498)*

### **3.4.2.2 Economic Stagnation**

The situation with respect to per capita income was worse than that of poverty. In 1990, Bihar's per capita income at Rs. 1197 was only 22 per cent of Delhi, which had the highest per capita income. After five years of Yadav's rule, in 1995 Bihar was the only Indian state that suffered a fall in per capita income—it had fallen to Rs. 915. See Table 3.2 below for a ranking of states along with their respective per capita net state domestic product (per capita income) for the years 1980, 1985, 1990, 1995, 2000 and 2004. Over

a twenty-five year period beginning in 1980, Bihar failed to improve its position as the state with the lowest per capita income in the country.

**Table 3.2 Per capita Net state Domestic Product (NSDP) at constant 1980 prices<sup>52</sup>**

| State  | 1980 | State  | 1985 | State  | 1990 | State  | 1995 | State  | 2000 | State  | 2004  |
|--------|------|--------|------|--------|------|--------|------|--------|------|--------|-------|
| (Del)  | 4030 | (Del)  | 4665 | (Del)  | 5447 | (Del)  | 6580 | (Del)  | 9108 | (Del)  | 10764 |
| (Go)   | 3145 | (Punj) | 3249 | (Go)   | 4883 | (Go)   | 5952 | (Go)   | 8535 | (Go)   | 8232  |
| (Punj) | 2674 | (Go)   | 3091 | (Punj) | 3730 | (Mah)  | 4533 | (Mah)  | 4880 | (Mah)  | 6125  |
| (Mah)  | 2435 | (Har)  | 2893 | (Har)  | 3509 | (Punj) | 4120 | (Punj) | 4774 | (Har)  | 5327  |
| (Har)  | 2370 | (Mah)  | 2705 | (Mah)  | 3483 | (Har)  | 3645 | (Har)  | 4372 | (Punj) | 5308  |
| (Guj)  | 1940 | (Guj)  | 2186 | (Arun) | 2709 | (Arun) | 3607 | (Guj)  | 3753 | (Guj)  | 5072  |
| (JK)   | 1775 | (Arun) | 2119 | (Guj)  | 2641 | (Guj)  | 3501 | (TN)   | 3691 | (WB)   | 4394  |
| (WB)   | 1773 | (WB)   | 1929 | (HP)   | 2241 | (TN)   | 2883 | (Kar)  | 3645 | (Kar)  | 4249  |
| (HP)   | 1704 | (JK)   | 1832 | (TN)   | 2237 | (WB)   | 2683 | (Arun) | 3530 | (Arun) | 3991  |
| (Arun) | 1571 | (TN)   | 1798 | (WB)   | 2145 | (HP)   | 2589 | (WB)   | 3507 | (TN)   | 3977  |
| (Kar)  | 1520 | (HP)   | 1781 | (AP)   | 2060 | (Kar)  | 2573 | (HP)   | 3261 | (HP)   | 3963  |
| (Ker)  | 1508 | (Nag)  | 1653 | (Kar)  | 2039 | (AP)   | 2429 | (Trip) | 3070 | (AP)   | 3718  |
| (TN)   | 1498 | (Kar)  | 1644 | (Nag)  | 1976 | (Ker)  | 2336 | (AP)   | 3068 | (Tri)  | 3638  |
| (Man)  | 1419 | (Mani) | 1598 | (Raj)  | 1942 | (Nag)  | 2293 | (Ker)  | 2822 | (Ker)  | 3509  |
| (AP)   | 1380 | (AP)   | 1573 | (Ker)  | 1815 | (Raj)  | 2073 | (Nag)  | 2727 | (Nag)  | 2922  |
| (Meg)  | 1361 | (Ass)  | 1510 | (JK)   | 1784 | (JK)   | 1915 | (Raj)  | 2349 | (Raj)  | 2831  |
| (Nag)  | 1361 | (Ker)  | 1507 | (Mani) | 1739 | (Tri)  | 1865 | (Meg)  | 2311 | (Meg)  | 2750  |

<sup>52</sup> In this table, for each year, states are arranged in descending order of per capita NSDP. For example, in the year 1980, Delhi with a per capita income of Rs. 4,030 had the highest per capita income in the country. It was followed by Goa with a per capita income of Rs. 3,145. In 1985 while Delhi continued to have the highest per capita income at Rs. 4,665, Punjab with Rs. 3,249 exchanged places with Goa whose per capita income was Rs. 3,091. Because Punjab in 1985 had the second highest per capita income, its name is placed after Delhi instead of Goa for that year.

|                         |      |       |      |       |      |        |      |        |      |        |      |
|-------------------------|------|-------|------|-------|------|--------|------|--------|------|--------|------|
| (MP)                    | 1358 | (Orr) | 1442 | (Meg) | 1733 | (Meg)  | 1838 | (Mani) | 2204 | (Mani) | 2579 |
| (Orr)                   | 1314 | (Meg) | 1412 | (MP)  | 1696 | (MP)   | 1809 | (JK)   | 2100 | (JK)   | 2297 |
| (Tri)                   | 1307 | (MP)  | 1409 | (UP)  | 1652 | (Mani) | 1807 | (MP)   | 1917 | (Orr)  | 2262 |
| (Ass)                   | 1284 | (UP)  | 1375 | (Tri) | 1642 | (UP)   | 1687 | (UP)   | 1789 | (MP)   | 2195 |
| (UP)                    | 1278 | (Raj) | 1338 | (Ass) | 1544 | (Orr)  | 1640 | (Orr)  | 1749 | (UP)   | 1970 |
| (Raj)                   | 1222 | (Tri) | 1240 | (Orr) | 1383 | (Ass)  | 1595 | (Ass)  | 1646 | (Ass)  | 1862 |
| (Bih)                   | 917  | (Bih) | 1074 | (Bih) | 1197 | (Bih)  | 915  | (Bih)  | 1285 | (Bih)  | 1266 |
| Average<br>24<br>States | 1756 |       | 1959 |       | 2384 |        | 2786 |        | 3421 |        | 3697 |

State abbreviations: Bihar (Bih); Rajasthan (Raj); Uttar Pradesh (UP); Assam (Ass); Tripura (Tri); Orissa (Orr); Madhya Pradesh (MP); Nagaland (Nag); Meghalaya (Meg); Andhra Pradesh (AP); Manipur (Man); Tamil Nadu (TN); Kerala (Ker); Karnataka (Kar); Arunachal Pradesh (Arun); Himachal Pradesh (HP); West Bengal (WB); Jammu & Kashmir (JK); Gujarat (Guj); Haryana (Har); Maharashtra (Mah); Punjab (Punj); Goa (Go); Delhi (Del).

Source: Alessandrin et al. (2008: 24)

### 3.4.2.3 Illiteracy

Bihar's literacy levels were similarly poor (see Table 3.3). In 1991, with literacy levels as low as 38 per cent, Bihar and Rajasthan were the only two states that had illiteracy levels greater than 60 per cent.

**Table 3.3 Total Literacy Rate (%)**

| States         | 1981 | 1991 | 1997 | 2001 | 2005 |
|----------------|------|------|------|------|------|
| Bihar          | 32   | 38   | 49   | 48   | 56   |
| Jharkhand      | -    | -    | -    | 54   | 61   |
| Madhya Pradesh | 37   | 44   | 56   | 64   | 65   |
| Chhattisgarh   | -    | -    | -    | 65   | 58   |
| Assam          | -    | 53   | -    | 64   | 84   |
| Rajasthan      | 30   | 39   | 55   | 61   | 57   |
| Orissa         | 41   | 49   | 51   | 64   | 64   |
| Uttar Pradesh  | 33   | 42   | 56   | 57   | 62   |
| Uttaranchal    | -    | -    | -    | 72   | 81   |
| Gujarat        | 52   | 61   | 68   | 66   | 73   |

|                  |           |           |           |           |           |
|------------------|-----------|-----------|-----------|-----------|-----------|
| Haryana          | 44        | 56        | 65        | 69        | 71        |
| Himachal Pradesh | 51        | 64        | -         | 76        | 80        |
| Karnataka        | 46        | 56        | 58        | 67        | 68        |
| Kerala           | 82        | 90        | 93        | 91        | 92        |
| Andhra Pradesh   | 36        | 44        | 54        | 61        | 59        |
| Maharashtra      | 56        | 65        | 74        | 77        | 79        |
| Punjab           | 48        | 59        | 67        | 70        | 74        |
| Tamil Nadu       | 54        | 63        | 70        | 73        | 76        |
| West Bengal      | 49        | 58        | 72        | 69        | 72        |
| <b>All India</b> | <b>44</b> | <b>52</b> | <b>52</b> | <b>65</b> | <b>68</b> |

Sources: Indiatat, Ahluwalia (2000) and National Sample Survey(2008)

#### 3.4.2.4 Government Capacity

There is abundant anecdotal evidence indicating the poor quality of governance in Bihar in the 1990s. The following extract from an article in *The Economist* is illuminating:

Bihar... has become a byword for the worst of India: of widespread and inescapable poverty; of corrupt politicians indistinguishable from the mafia dons they patronise; of a caste-ridden social order that has retained the worst feudal cruelties; of terrorist attacks by groups of Naxalite Maoists; of chronic misrule that has allowed infrastructure to crumble, the education and health systems to collapse, and law and order to evaporate... much of the blame for Bihar's poor performance is laid at the door of Laloo Prasad Yadav, who was the state's chief minister from 1990 to 1997. Jailed for his alleged involvement in a huge corruption scandal, he... rules through his wife, Rabri Devi. (Long 2004)

Beyond such anecdotes, empirical evidence also supports the claim that government capacity in Bihar was poor during this period, at least in relation to other Indian states. One measure of government capacity is the amount of revenue that a government actually raises relative to the revenue it is expected to raise, given key features of the structure of the economy of the state like share of agriculture in GSDP. Public finance economists routinely take data relating to a set of comparable governments, and, using regression analysis, classify them according to how good they are at raising revenue,



relative to one another. In standard jargon, those who raise more revenue are said to be making a ‘high tax effort’. Economists at the Reserve Bank of India conducted this exercise for India’s 15 largest states and found that Bihar was ranked near the middle: 9 out of 15, in 1993/4. (Reserve Bank of India 2005: 18-19).

Given all of the above, it would appear that compared to other Indian states, Bihar had a poor record with respect to poverty, illiteracy, per capita income, human development and government capacity around the time that Yadav came to power in 1990.

### ***3.4.3 Bihar’s Pro-Poor Performance during Yadav’s Stewardship***

In the preceding section we saw that, around the time when Yadav became chief minister in 1990, Bihar’s situation with respect to a number of indicators (i.e., poverty, per capita income, literacy, human development and government capacity) left much to be desired. In this section I will show that, by 2005 when Yadav and the RJD lost to the National Democratic Alliance (NDA) led by Nitish Kumar, Bihar’s situation had not only failed to improve, it had markedly worsened.

#### **3.4.3.1 Poverty**

Poverty reduction is one of the areas in which Bihar did relatively well compared to others like literacy or per capita income (see Table 3.1). For example, between 1993/4 and 2004/5 (data is not available for 1990) Bihar managed to reduce rural poverty from 57 per cent to 42 per cent. Despite this at 42 per cent, Bihar was still the second poorest state in India. Another way to look at Bihar’s performance is to compare it with another state that had similar levels of poverty in the past. This is possible with respect to West Bengal between 1983 and 2004/5 because in 1983, Bihar’s level of poverty at 65 per cent was comparable to West Bengal’s 64 per cent. Although the year 1983 was a full

seven years before Yadav became chief minister of Bihar, it is a reasonable comparison because 15 of the 22 years from 1983–2005 correspond with the Yadav regime's tenure in Bihar. During this period, West Bengal was able to reduce the per cent of rural poor to 29 from 64 per cent, while Bihar only reduced the number of rural poor to 42 per cent—a full 13 per cent less.

#### **3.4.3.2 Per Capita Income**

When Yadav took over as chief minister of Bihar in 1990, Bihar's per capita income or NSDP at constant prices (see Table 3.2) was Rs. 1,197 per year (half that of the national per capita income of the time of Rs. 2,384). By the time his party lost elections and handed over power in 2005, Bihar's per capita income at Rs. 1,266 was only a third of the national average of Rs. 3,697.

#### **3.4.3.3 Literacy**

In 1990, Bihar's literacy rate at 38 per cent was the lowest in India. When the RJD left office 15 years later, the State's literacy rate was still the lowest. Seven years into Yadav's tenure in 1997 and four years after in 2001, Bihar was the only state in India where the majority of the population (over 50%) continued to be illiterate (see Table 3.3). When, in 2001, there was an absolute decline in the number of illiterates in all of India for the first time since independence, the number of illiterates in Bihar had increased from 32 million in 1991 to 35 million in 2001 (National Literacy Mission). Although by 2005 the percentage of illiteracy in Bihar had fallen to 44 per cent, it was still 24 per cent points more than the all-India average of 68 per cent.

#### **3.4.3.4 Government Capacity**

As discussed previously, it is possible to use the fact that Indian states have some autonomy to raise part of their own revenues to set up a measure for government

capacity (tax effort). In 1993/4 Bihar was ranked 9 out of 15 in tax effort. By 2002-3, when Yadav had been in power for over a decade, Bihar's rank had declined to number 15 (Reserve Bank of India 2005: 18-19).

From the evidence discussed above, it seems reasonable to conclude that, compared with 1990 when Yadav assumed office, Bihar's situation with respect to poverty, illiteracy, per capita income and government capacity showed very little improvement or declined dramatically by the time he and his party finally left office 15 years later.

### **3.5 Under-Claimed and Under-Spent Fiscal Transfers in Bihar**

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In the preceding sections, we saw that Yadav's core BC and Muslim supporters were poor. Yet, he managed to remain electorally viable for fifteen long years without reducing poverty, improving incomes, reducing illiteracy or increasing government capacity. In this section, I will show how Bihar's poor performance during this period occurred alongside substantial under-claiming and under-spending of centre-state fiscal transfers. From a World Bank study, we know that from 1997 to 2000,

... Bihar has the country's lowest utilisation rate for centrally funded programs, and it is estimated that the state forfeited one-fifth of central plan assistance during 1997-2000. (World Bank 2005)

Thus, it becomes evident that Yadav failed to improve the economic condition of his core supporters *despite* having access to financial resources that could have helped him do so. This seeming contradiction is the core of the Bihar paradox that this thesis seeks to examine.

### **3.5.1 Brief Overview of Fiscal Transfers in India**

States in India have access to a range of financial resources (fiscal transfers) from the central government, fully discussed in Chapter 4. There are three main three types of fiscal transfers, one of which is CSS. For many states, these fiscal transfers from the central government are the principal source of development funds. For example, of the Rs. 34,760 million spent in Bihar on development in 2004, Rs. 28,310 million came as central fiscal transfers, and the remaining Rs. 6,450 million was in the form of a Central Government loan (Government of Bihar 2006).

CSS grants are made available to states in two or more instalments during the year. The release of the second and subsequent instalment is dependent on the spending of at least 60% of the money made available in the previous instalment. Bihar has struggled to meet this criterion because of its low spending capacity. As a result, Bihar has been forfeiting large amounts of money each year that have been earmarked for it by the Central Government.

Another source of Bihar's failure to claim CSS resources has to do with that class of CSS schemes for which there is no earmarked allocation for a state. The inter-state allocations for such schemes are determined on the basis of proposals submitted by states and approved by the sanctioning authority in the concerned GOI ministry.

Allocations for these schemes are therefore 'demand-led'. Considerable work needs to be put in before a state can submit a proposal that will get approved. Bihar has been a loser with respect to these types of schemes because of its lack of capacity to prepare project reports that are able to stand up to the scrutiny of experts in Delhi.

### **3.5.2 Examples of Bihar's Under-Claiming and Under-Spending**

There have been a large number of instances where Bihar government has been unable to claim and spend centre-state fiscal transfers that were otherwise available to it. The aim of this section is not to list all of these. The purpose here is to showcase a few examples that help to establish the claim that under-claiming and under-spending was widespread in Bihar during the period when Yadav and the RJD were in power.

During the five-year period from 1992 to 1997, the state plan outlay (SPA) approved by the Planning Commission of India for Bihar had to be scaled down to less than half of what was approved at the beginning of the year (see Table 3.4). Between 1997 and 2006, of the Rs. 96.45 billion allocated to Bihar by the Central Ministry of Rural Development, over Rs. 22 billion could not be claimed and, of the money claimed, only 64 per cent was spent (Government of Bihar 2006) (see Table 3.5). In Chapter 1, one of the three examples I discussed while explaining my motivation for this research related to the unwillingness of the state department of education to hire schoolteachers despite the Central Government paying for it under the SSA scheme. In the case of SSA, of the Rs. 52 billion earmarked for Bihar during the period 2001 to 2007, only Rs. 26 billion was spent (see Table 3.6).

**Table 3.4 Scaling-down of the state plan (Rs. millions)**

| Serial Number | Year    | Approved Plan | Revised Plan | % Reduction |
|---------------|---------|---------------|--------------|-------------|
| 1             | 1992-93 | 22027         | 11000        | 50          |
| 2             | 1993-94 | 23000         | 7500         | 67          |
| 3             | 1994-95 | 24000         | 9000         | 63          |

|    |                                      |               |              |           |
|----|--------------------------------------|---------------|--------------|-----------|
| 4  | 1995-96                              | 25227         | 9720         | 62        |
| 5  | 1996-97                              | 21439         | 16490        | 23        |
|    | <b>Total for 8<sup>th</sup> Plan</b> | <b>11569</b>  | <b>5371</b>  | <b>54</b> |
| 6  | 1997-98                              | 22684         | 17961        | 21        |
| 7  | 1998-99                              | 37687         | 18500        | 51        |
| 8  | 1999-00                              | 36300         | 24720        | 32        |
| 9  | 2000-01                              | 31550         | 17367        | 45        |
| 10 | 2001-02                              | 26440         | 16554        | 37        |
|    | <b>Total for 9<sup>th</sup> Plan</b> | <b>154662</b> | <b>95103</b> | <b>39</b> |
| 11 | 2002-03                              | 29644         | 23140        | 22        |
| 12 | 2003-04                              | 33200         | 26420        | 20        |
| 13 | 2004-05                              | 40000         | 30592        | 24        |

Source: Government of Bihar (2006)

**Table 3.5 Inability of Bihar to claim and spend CSS grants (Rs. Million)**

| Year    | Central Allocation | Central Release | Loss of Resources |                 | Total Funds Available | Expenditure |                      |
|---------|--------------------|-----------------|-------------------|-----------------|-----------------------|-------------|----------------------|
|         |                    |                 | Amount            | % of Allocation |                       | Amount      | % of Funds Available |
| 1997-98 | 8300               | 7299            | 1000              | 12              | 23124                 | 13979       | 61                   |
| 1998-99 | 10848              | 8563            | 2285              | 21              | 23011                 | 15975       | 69                   |

|              |              |              |              |           |               |               |           |
|--------------|--------------|--------------|--------------|-----------|---------------|---------------|-----------|
| 1999-00      | 12321        | 9532         | 2789         | 23        | 25522         | 15776         | 62        |
| 2000-01      | 6766         | 4480         | 2287         | 34        | 12815         | 9009          | 70        |
| 2001-02      | 7874         | 6122         | 1752         | 22        | 14056         | 9418          | 67        |
| 2002-03      | 7642         | 5223         | 2418         | 32        | 12959         | 8979          | 69        |
| 2003-04      | 8906         | 6279         | 2627         | 30        | 14036         | 10471         | 75        |
| 2004-05      | 13726        | 13742        | -15          | -0.1      | 21789         | 15349         | 70        |
| 2005-06      | 20077        | 13212        | 6865         | 34        | 28303         | 13823         | 49        |
| <b>Total</b> | <b>96459</b> | <b>74451</b> | <b>22008</b> | <b>23</b> | <b>175613</b> | <b>112778</b> | <b>64</b> |

Source: Bihar State Rural Development Department; Government of Bihar (2006)

**Table 3.6 Inability of Bihar to claim and spend SSA grants (Rs. Million)**

| Year         | Approved Annual Work Plan & Budget | Fund Releases  |                |              | Total Expd.  | %         |
|--------------|------------------------------------|----------------|----------------|--------------|--------------|-----------|
|              |                                    | Govt. of India | Govt. of Bihar | Total        |              |           |
| 2001-2002    | 671                                | 285            | 285            | 570          | 90           | 13        |
| 2002-2003    | 3514                               | 792            | 285            | 1077         | 129          | 4         |
| 2003-2004    | 7648                               | 1945           | 648            | 2593         | 2469         | 32        |
| 2004-2005    | 8358                               | 3020           | 800            | 3820         | 3765         | 45        |
| 2005-2006    | 8427                               | 3020           | 1213           | 4233         | 4443         | 53        |
| 2006-2007    | 23402                              | 10263          | 5385           | 15648        | 15496        | 66        |
| <b>Total</b> | <b>52019</b>                       | <b>19324</b>   | <b>8617</b>    | <b>27941</b> | <b>26392</b> | <b>51</b> |

Source: (Bihar Education Program Parishad – private communication)

There were a number of other CSS grants for which money was available from the central government that met with a similar fate. They were a programme for the development of 'backward' regions known as Rashtriya Sam Vikash Yojana (RSVY), a program for rural roads called Prime Ministers Gram Sadak Yojana (PMGSY), a scheme that sought to deal with child malnutrition known as Integrated Child

Development Scheme (ICDS), and a scheme for disadvantaged groups called Special Component Plan (SCP) also met a similar fate. Against an allocation of Rs. 40 billion for RSVY from 2002 to 2006, Bihar was able to secure only Rs. 10 billion and of the amount received only 62 per cent was spent. In the case of PMGSY, between 2000 and 2006 the allocation was Rs. 14.2 billion and spending Rs. 3.59 billion, and for the ICDS, between 1990 and 2005 the release and use figures were Rs. 4 billion and Rs. 1.9 billion respectively (Government of Bihar 2006). The under-spending of ICDS funds was not surprising given that 50 per cent of the approved 394 ICDS projects in the state had not even started (N. Nayak and Saxena 2006).

The use of SCP grants meant exclusively for the development of SCs, a core constituency of Yadav, was no different. Bihar used only Rs. 1.4 billion between 1990 and 2005 against an availability of Rs. 4.2 billion (Government of Bihar 2006).

Ministers at the time were well aware of these failures, as evident from the fact that in 2002, Bihar's finance department prepared an estimate of unused centre-state fiscal transfers between 1997 and 2001, which showed that Rs. 15,700 million from a total of Rs. 77,000 million remained unspent (World Bank 2005). Bihar's inability to claim and to use centre-state fiscal transfers was therefore substantial and systematic.

Before closing this section, it is worth highlighting one point on central plan assistance to states<sup>53</sup>. Figure 3.1 below has the time trend of plan assistance provided by the Central Government to the three states of Bihar, Andhra Pradesh and Karnataka from 1980 to 2007. It is illuminating to note that, through the 1980s—i.e., during the sixth and seventh plan periods and up until the eighth plan period when Yadav became chief

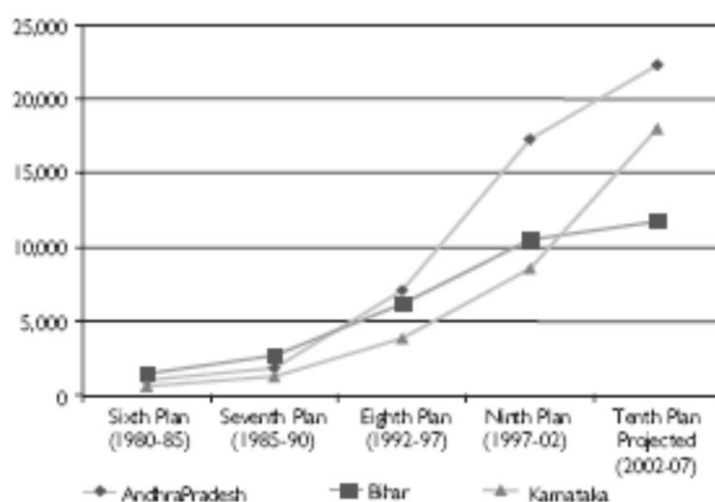
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<sup>53</sup> Central plan assistance is a sub set of SPA used in the statistical analysis of this thesis. Plan assistance is one of three sources of funding for SPA. Market borrowing, states own revenues being the other two.



minister—Bihar received central plan assistance at a level that was higher than Karnataka and equal to Andhra Pradesh (two states that have done well). Bihar's position began to weaken when Yadav took over in the eighth plan period, and by the tenth plan when his party demitted office, Bihar had fallen behind both Andhra Pradesh and Karnataka.

**Figure 3.1 Plan Assistance through the 6th–10th five-year plans (Rs. crores)**



Source: World Bank (2005: 44)

By itself, this data is not conclusive, because the down turn could have happened for a number of reasons. Yadav becoming chief minister was only one of many things that changed in Bihar at this time. The only point I wish to make is that the numbers, pattern and timing are striking. If nothing else, it does not disprove the argument of this chapter.

### 3.6 Summary

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By itself, Bihar's failure to use centre-state fiscal transfers is not conclusive proof that it is a case of a democracy that failed to implement pro-poor policies. For example, it

could well be that Bihar had plenty of its own resources and did not need the funds available to it from Delhi. However, the fact that under-claiming and under-spending occurred as they did alongside Bihar's dismal development record and its known dependence on centre-state fiscal transfers, leads to the conclusion that Bihar failed to improve the economic condition of its people despite having the resources to do so. This is the Bihar paradox. In the following chapters, I seek to explain this paradox using both statistical analysis and the theories described in Chapter 2.

## Chapter 4 – Centre-State Fiscal Transfers in India

As explained in Chapter 3, contrary to almost all expectations, an apparently ‘populist’ government in Bihar was the opposite of profligate with public money: it often failed to spend funds available to it from the Central Government, including money specifically intended for anti-poverty activities. A major part of this thesis is therefore devoted to a statistical exploration of this pattern of under-claiming and under-spending with regard to fiscal transfers available from Delhi to fund development programmes.

In this chapter, I first explain in Section 1 why it is possible in India to approach the conditions of a natural experiment by comparing the extent to which different state governments claim and spend these transfers. In Section 2, I outline the complex organisational and administrative dimensions of centre–state fiscal transfers in India, including why securing these transfers from the Central Government requires a lot of organisational effort. I also discuss in some detail the CSS and SPA transfer sub-categories, which are the foci of this thesis. I move in Section 3 to a summary of existing research on inter-state differences in fiscal transfers in India. One important point is that there is no data in the public domain on CSS money claimed and spent by different states, and what we know about SPA is dated. Therefore, a substantial portion of my research for this thesis was actually creating data sets on CSS and SPA, as explained in Section 4. Finally, Section 5 summarises and concludes this chapter.

#### 4.1 India and CSS: A Natural Experiment

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The first challenge in empirically testing the question of why Bihar in particular failed to implement pro-poor policies is to narrow the boundaries of this study. One way to do this is to identify a set of schemes and/or programs, which if implemented could result in improvements to the lives of the poor. In the case of India, CSS transfers fit this bill quite nicely, because they are a bouquet of schemes, almost all of which have the potential to influence the lives of poor people living in states that choose to implement them. Though there is some element of co-financing by state governments, CSS financing largely comes from grants made available by the Central Government. This means that CSS also provides an opportunity to study the impact of factors other than the availability of financial resources, such as poverty levels, elections etc.

Though public spending is a necessary but not sufficient condition for improving the lives of the poor, it is widely acknowledged that development expenditure by the public sector is also an important driver for poverty reduction in India (Harriss 2000; Sen 1996). I therefore chose the extent to which states claimed SPA and CSS funds available to them and spent CSS—using annual data from 1997/8 to 2004/5 for 16 states, as the dependent variable in this quantitative analysis and as the marker for the case study on Bihar.

The second challenge is to find comparable entities to contrast with Bihar in order to study the impact of various factors on the uptake of such schemes—and by extension, pro-poor policies. Fortunately, India's states fulfil these criteria quite nicely, because of their social, economic, political and administrative diversity combined with the fact that they operate within a common legal and constitutional framework. With credible

elections and substantial variations in levels of poverty and human development, India is akin to a laboratory in which to test a range of hypotheses about democracy (Harriss 2000). Because CSS represent a collection of schemes applicable to all Indian states, it is then possible to compare Bihar's performance with other states in a way that is analytically significant.

#### **4.2 Centre-State Fiscal Transfers: An Outline**

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There is a clear separation of powers and functions between the centre and the states in India, detailed in the seventh schedule of the Indian Constitution. The exclusive powers of the Central Government are in the union list, those of the state governments are in the state list, those under joint jurisdiction are in the concurrent list; and all residuary powers are with the Central Government.

There is no overlap in the power to tax. Most broad-based taxes are the responsibility of the Central Government, including taxes on income and wealth from non-agricultural sources, corporation tax, taxes on production (excluding those on alcoholic beverages) and customs duty. Though states have a long list of items on which they have the power to impose taxes, the only state taxes of significant value are those on the sale and purchase of goods (M. G. Rao and Singh 2001). This has led to a situation in which states, despite having substantial developmental responsibilities, end up with very few resources from which they can finance development expenditure:

The result of the Indian assignments of tax and expenditure authority, and their implementation in practice has been a substantial vertical fiscal imbalance. In 1997-98, the states on average raised about 31 per cent of total revenues, but incurred about 57 per cent of total expenditures. Transfers made up the balance from the Centre. In fact, the ability of the states to finance their current expenditures from their own sources of

revenues has tended to decline over time, from 69 per cent in 1955-56 to around 55 per cent in the 1990s. (M. G. Rao and Singh 2001)

This imbalance has given rise to a large and growing array of instruments through which states receive fiscal transfers from the Central Government in order to finance development programmes. This opens up an opportunity to use such schemes to map the diversity in adoption of pro-poor policies and programmes by democratically elected state governments.

The GOI has a fiscal transfer system with three principal financing routes:

- 1) Transfers mandated by the Central Finance Commission
- 2) Plan assistance that partly funds the annual SPAs approved by the Planning Commission of India
- 3) CSS approved by the Planning Commission but administered by various central ministries and implemented by state governments

Out of a total transfer of £50.86 billion (Rs. 3,814,230 million) made available by the Central Government to states in 2008-09, £26.5 billion (Rs. 1,986,890 million) was through the Central Finance Commission (52 per cent), £9.96 billion (Rs. 747,030 million) was through plan assistance (20 per cent) and £14.4 billion (Rs. 1,080,310 million) was via CSS (28 per cent) (Saxena 2009). Transfers made on the recommendations of the Central Finance Commission are mandatory. The remaining are not: state governments can apply to central ministries for funding under a wide range of CSS or approach the Planning Commission for approval and co-financing of state plans.

Historically, as development planning gained popularity in India and the revenues of the Central Government grew, the Planning Commission and central ministries became a

major dispenser of funds to state governments. For example, while the share of transfers mandated by the Finance Commission hovered around 50 per cent, CSS transfers grew from 0.9 per cent in 1980-85 to 28 per cent in 2008-09. As there is no specific provision in the Constitution for SPA or CSS, the Central Government used the miscellaneous provisions of Article 282 of the Constitution to give legal sanction for these transfers.

In what follows I explain the main features of each of the three types of centre-state fiscal transfer system.

#### **4.2.1 Finance Commission**

Article 280 of the Constitution of India<sup>54</sup> provides for the establishment of a Finance Commission once every five years<sup>55</sup>. It lays down the rules for sharing of the proceeds from certain centrally levied taxes with the states, and for grants to the states from the Consolidated Fund<sup>56</sup> of India. Sharing revenue from non-corporate income tax (Article 270) is compulsory, while sharing proceeds from Union excise duty (Article 272) is optional. The Finance Commission also recommends grants to the states under Article 275. It is therefore a key institution responsible for ensuring balance in the assignment of revenues between the centre and states and between states. In recent years, the

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<sup>54</sup> The powers and procedures of the Commission are regulated by the Finance Commission (Miscellaneous Provisions) Act of 1951.

<sup>55</sup> The latest was the thirteenth Finance Commission. It was constituted on 13 November 2007 and it submitted its report on 30 December 2009.

<sup>56</sup> The accounts of Government of India have three parts. They are the Consolidated Fund of India, Contingency Fund of India and the Public Account. The Consolidated Fund of India contains all revenues received by the Government by way of taxes and other receipts. All loans raised by the Government are also credited into this fund. All expenditure of the Government is incurred from this fund and no amount can be withdrawn from the Fund without authorisation from Parliament. The Contingency Fund of India is used to meet unforeseen expenditure. All expenditures are recouped as soon as Parliament authorises additional expenditure. Receipts under the Public Account mainly flow from the sale of savings certificates, contributions into General Provident Fund and Public Provident Fund, security deposits and earnest money deposits received by the Central Government. With respect to such receipts, the Central Government is acting as a banker or trustee and refunds the money after completion of the contract/event. The receipts into and disbursements out of the Fund are not subject to vote by the Parliament (The Controller General of Accounts 1991).

Commission has also been given the additional responsibility of making recommendations on aspects of fund transfers to the third tier of government (i.e., *panchayat raj* institutions). Finance Commissions thus far have followed a formulaic transfer system, one that seeks to correct the resource imbalance between states. To that extent, its recommendations have been progressive in the sense that poor states have received more in per capita terms (M. G. Rao and Singh 2001).

#### **4.2.2 Plan Assistance (PA)**

The Planning Commission of India approves the annual development plans of states following an exercise that involves the submission of an itemised proposal including details of how the state governments proposed to finance their plans. This is a complicated exercise and involves a lot of work on the part of each state government to put together a plan that will stand up to scrutiny by the mandarins of the Planning Commission in Delhi. One source of financing for SPAs is the Plan Assistance (PA) that the Planning Commission agrees to make available. The rest comes from market borrowing, which requires the permission of the Planning Commission, and the states' own local revenues. As principal secretary to the Bihar State Government, I have observed and participated in this process. Though the Planning Commission has some discretion, almost the entire amount of PA that a state will receive is decided using the Gadgil formula<sup>57</sup> as approved by the National Development Council (NDC) from time to time. All international aid that goes to states as Additional Central Assistance (ACA) is also part of the plan. The Gadgil formula does not apply to this. In addition, some central government non-CSS schemes like the National Old Age Pension Scheme (NOAPS) are also routed via the ACA route.

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<sup>57</sup> The details of how the Gadgil formula has evolved over the years can be seen in Annexure 2.



### **4.2.3 Centrally Sponsored Schemes (CSS)**

CSS transfers seek to provide additional resources to states for investing in sectors that are in the states' domain as per the Constitution of India, but according to the Central Government are of national importance. They form part of the central plan and central budget, and are distinct from plan assistance given to states as block grants. CSS transfers are designed, financed and supervised by different departments in the Central Government. Each has its own rules and operating procedures. Individual departments in the GOI in consultation with the Planning Commission, determine the outlay and nature of individual schemes based on the guidelines they set. These cannot be altered by individual states. Though they came to be known as CSS around the late 1960s, specific purpose grants and loans<sup>58</sup> for specific schemes were in existence following World War II and have historically been an area of discord between the centre and the states (Garg 2006). The states, or at least their finance departments, prefer unlinked, untied or block assistance. However, individual departments in the states have a preference for specific purpose grants especially when they bypass the state budget (and therefore the state's finance department) and reach bank accounts of state agencies set up for the purpose. The GOI also prefers specific purpose grants because it is easier to take political credit for specific programs.

Beginning in 1968, several committees set up by the NDC<sup>59</sup> have grappled with ways to limit the number and scope of CSS transfers, the last of which was in 2005<sup>60</sup>. Though

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<sup>58</sup> Under Article 293 of the Constitution of India, states can borrow from the market. However, the Constitution also stipulates that when a state is indebted to the centre, it can borrow from the market only with the prior permission of the Central Government. As all state governments are indebted to the centre, in practice states can do so only with the prior permission of the Central Government. The extent to which a state government can raise market loans is agreed to at the time of approval of the state's annual plan.

<sup>59</sup> The Prime Minister heads the NDC. Its members are the deputy chairman of the Planning Commission of India, senior members of the central cabinet and state chief ministers.

this leads to a reduction in the number of CSS available each time, their numbers soon grow again and the cycle continues.

There were an estimated 196 different CSS in 2006-7 when I was collecting data, although other sources suggest slightly different totals. The uncertainty derives from the fact that some CSS are not formally labelled as such in the Central Government's budget. Those not so-labelled appear as 'minor' or 'sub-minor' items within the operational programmes of central ministries. Originally, state governments were required to co-fund CSS, typically at a 50 per cent level. By the 1990s, and in response to high fiscal deficits being run by many state governments, the average state contribution requirement had decreased to around 25 per cent. Many schemes initiated after 2000 require no financial contribution at all from the state governments (Reserve Bank of India 2008). Leaving aside question of levels of co-funding, one can identify four different types of CSS based on two categories of difference.

The first major difference is between schemes that are routed from the Central Government through the budgets of state governments to the operating/spending agencies; and those that are routed directly from the Central Government to operational agencies within the states, bypassing the budgets of the state governments (Garg 2006). In 2006/7, for example, there were 154 CCS that were financed through the state budget

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<sup>60</sup> In 1968, the central government accepted the recommendation of a committee of the NDC that the total value of CSS should be limited to 1/6<sup>th</sup> of the quantum of central plan assistance to states. However this was soon exceeded. During the fifth five-year plan period (1974-79), 72 CSS were transferred to the state sector and the resultant savings of about Rs. 20,000 million were given to the states as additional block assistance. In July 1984, this issue was raised again by states and after six years of deliberations in 1991, 113 of the 262 CSS (as of 1 April 1985) were transferred to states along with the corresponding share of funds. This cycle of expansion and contraction continues. The latest being an expert committee set up in 2005 (Verma 2006). I had the opportunity to work with this expert group during my fieldwork in India 2006-07.

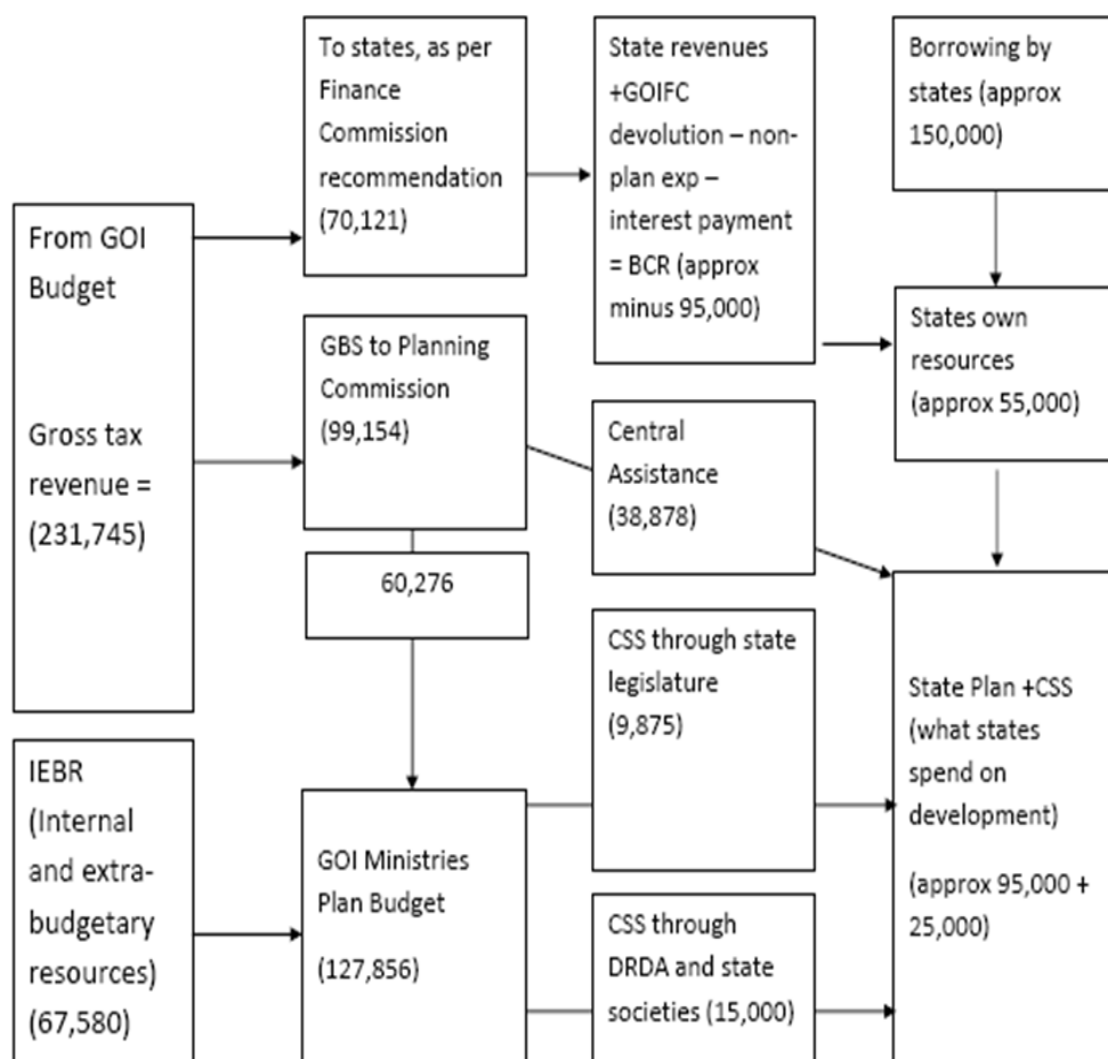
and 42 that bypassed it. The former collectively accounted for 248,020 million rupees of expenditures and the latter for 365,160 million rupees. The CSS that bypassed the state budget were therefore on average four times as costly as CCS that went through the state budget (C. B. Rao et al. 2007). The second distinction is between schemes for which the distribution among states is specified at the start of the year and those for which it is not. The latter allocation is ‘demand-led’: states have to submit a formal demand according to a standard blueprint drawn up in Delhi.

This two-by-two variation generates four different types of CSS, however, these are, only a part of the story. Even where there are formal inter-state allocations declared at the start of the financial year, normal public sector budgetary processes begin to take effect in the second half of the year, and money is in practice re-routed to those states that can make the most effective claims. In the Indian public service as elsewhere, spending officers tend to be evaluated according to their success in spending their budgets; they have an incentive to make the system flexible so that they can shift all their money<sup>61</sup>. State governments can expect to be rewarded financially for putting organisational resources into managing the ways in which they relate to ministries in Delhi in respect of CSS transfers. Conversely, those state governments that do not pay attention to this issue can expect to be out-competed by those that do, and to end up with smaller fiscal transfers than the CSS system formally offers them.

The flow chart in Figure 4.1 has details of the different sources from which Government of India finances its development assistance programs to states and the multiple routes its takes. Numbers in brackets are in rupees crores (1 crore = 10 million).

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<sup>61</sup> Special category states located in the northeast of India are treated differently. Funds allocated to them do not lapse at the end of the year, but are carried over into the next financial year.

**Figure 4.1 Devolution of funds to states in 2001-2002 (revised estimates)<sup>62</sup>**

Source: (Saxena 2004)

### 4.3 Existing Research on Centre-State Fiscal Transfers in India

Current insights into fiscal transfers in India that are pertinent for this thesis can be grouped in the following manner:

<sup>62</sup> The Central Government's annual budget reports three figures: budget estimates, revised estimates and accounts. The first two refer to the current year, while the accounts typically refer to the previous year.

- 1) Political economy of fiscal transfers
- 2) Fiscal transfers as regressive vs. progressive
- 3) Impact on regional inequality
- 4) Explaining non-use of transfers

This section summarises the existing knowledge in each of these areas.

#### ***4.3.1 Political Economy of Fiscal Transfers***

There is a general consensus in the literature that politics plays a role in determining the size of fiscal transfers or grants that states receive (Arulampalam et al. 2007; Dasgupta et al. 2001; Khemani 2007a; M. G. Rao and Singh 2000; V. Singh et al. 2003). These studies focus on the short and direct route, i.e. by the party in power in the Central Government favouring states in which their party is in power, and/or states with a large number of Members of Parliament successfully pressurising the Central Government to give their state more money. This thesis makes a contribution by identifying an additional route; what I have chosen to call - the long and indirect route. This acts through the impact of politics on one or more mediating factors. One such is via the impact of politics on state administrative capacity and through it, its ability to spend fiscal transfers. The other is via the impact of politics on the ability of states to spend (via state administrative capacity) and this in turn impacting the ability of states to claim fiscal transfers from the Central Government. The latter effect is relevant because fiscal transfers are paid in instalments, each instalment being conditional on use of the previous. When states, as in the case of Bihar, do not spend what it has claimed, they fail to meet the eligibility conditions for the subsequent instalment.

Much ink has been spilled on discussing the importance of state administrative capacity (Haggard and Kaufman 1989; Haggard 1990; Stepan 1978), yet we know very little

about the politics of achieving high capacity. Much of the treatment has been in regards to providing technical solutions: more training, better motivation, appropriate rewards and punishment. However, an examination of the history of administrative competence shows that political constraints rather than money or knowledge have been the decisive factor (Geddes 1994). The Bihar case study contributes to this literature by identifying certain pathways through which political incentives shape state administrative capacity.

#### ***4.3.2 Fiscal Transfers as Regressive vs. Progressive***

Opinion is divided on the impact of fiscal transfers on poor states. Some find no systematic relationship between per capita transfers and per capita GSDP (Arulampalam et al. 2007; M. G. Rao and Singh 2000). Others find that fiscal transfer outlays are regressive; states with low per capita income receive lower<sup>63</sup> outlays compared to states with higher per capita income (Chakraborty 2003: 45; World Bank 1995: 46). Others still find that fiscal transfer outlays are progressive (R. Das 2008; Gadgil 2008; Ghosh et al. 1998). However, this literature does not address

- Fiscal transfers routed to state government agencies like the DRDA, which bypasses state government budgets (e.g., CSS that bypass the state budgets as discussed above)
- Patterns of spending and their impact on poor states; rather the focus has been on allocation and claims<sup>64</sup>

Understanding the impact of patterns of spending is important because determining outlays is only one of many stages in an intricate system of centre–state financial management. At the very least, outlays need to be claimed and what is claimed needs to

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<sup>63</sup> Annexure 3 has details of per capita plan outlays for 16 major states in 2001/2. Annexure 4 has spearman's rank correlations for transfers relative to the per capita ranking of major states.

<sup>64</sup> In reports to Parliament, moneys disbursed to states are reported as spent without taking into account the CAG's certification of expenditure by state governments.

be spent before benefits can accrue. In this thesis, I analyse data relating to CSS claiming and spending by states through two channels; the first via the state budget and the second disbursed directly to autonomous state agencies bypassing the state budget<sup>65</sup>.

### **4.3.3 Impact on Regional Inequality**

The theoretical literature on comparative regional development predicts the impact of economic growth and development on regional disparity. Its predictions can be grouped into three broad strands. The first prediction contends that regional inequality will increase in the early stages of development and decline later (the inverted U curve) (Williamson 1965). The second predicts that regional inequality will decrease as less developed regions attract more investment due to comparatively lower wages, unfulfilled demand and higher rates of return, calculated or forecast by the Solow growth model (Sala-i-Martin 1996; Solow 1956). The third uses theories of agglomeration economies to predict that regional inequality will increase because of the benefits that firms accrue when they are located near each other (economies of scale and network effects) encourage firms to cluster due to greater competition among suppliers, greater specialization and the division of labour (Duranton and Puga 2004).

Indian evidence on these predictions is conclusive in that there was an increase in regional inequality. We know that, following economic liberalisation in the 1980s and the increase in momentum after 1991, the Indian economy grew rapidly but so too did inequality (M. S. Ahluwalia 2002; Alessandrin et al. 2008; Bhattacharya and Sakthivel 2004; Nagaraj et al. 1998; M. G. Rao et al. 1999; Shetty 2003). Studies recognise the following factors as contributors to increased regional inequality in India:

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<sup>65</sup> To the best of my knowledge, this is the first time that CSS grants routed directly to autonomous agencies of the state governments in India, bypassing the state budget, have been captured in a data set.

- Competition between states for private investment<sup>66</sup> (I. Ahluwalia 2006; Alessandrin et al. 2008; M. G. Rao et al. 1999)
- The inability of fiscal transfers to adequately offset the fiscal disabilities of poor states (M. G. Rao et al. 1999)
- The regressive nature of invisible interstate transfers (M. G. Rao et al. 1999)
- Banks' unwillingness to lend to entities located in states with poor economic and social infrastructure<sup>67</sup> (Guruswamy and Kaul 2004)

This thesis adds to the above body of work by putting forward evidence to show that poor states spend less of the fiscal transfers (CSS) they claim and that this could be a hitherto unacknowledged reason for poor states claiming less in the long term, as discussed earlier in this chapter. Inability to spend transfers, therefore, has the potential to render the Government of India's only strategy to reduce regional inequality (i.e., to allocate additional resources to poor areas) ineffective.

#### ***4.3.4 Explaining Under Spending***

Two explanations have dominated the literature on why some states in India spend more central grants while others spend less: state administrative capacity and the ability to co-finance<sup>68</sup> (R. Nayak et al. 2002; Reserve Bank of India 2008; World Bank 1995). The state administrative capacity hypothesis simply argued that some states spent less

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<sup>66</sup> The two states of Gujarat and Maharashtra received close to 40 per cent of all investments in the first seven years after 1991 (Kurian).

<sup>67</sup> For example, while banks raised Rs. 264,466 million as bank deposits from Bihar, lending in the state was only Rs. 56,358 million (21.3 per cent against a national average of 58.5 per cent). In per capita terms, this worked out to Rs. 551.60 against a national average of Rs. 4,828.80. When Uttar Pradesh (UP) and Bihar are taken together, the credit deposit (CD) ratio is less than 30 per cent, which means that more than 70 per cent of deposits raised in UP and Bihar were invested elsewhere (Guruswamy and Kaul 2004).

<sup>68</sup> An inability to co-finance can prevent state governments from using fiscal transfers when states are required to bear a portion of the program cost. For example, the rural housing program for people below the poverty line (the IAY) is a CSS in which the Central Government meets 75 per cent of the cost and the state government 25 per cent. The Central Government releases funds for this program only if 60 per cent of available funds have been used and the state government has released its share.



because they had poor capacity, but offered little evidence on this trend or its correlation with poverty levels. The co-financing hypothesis displayed the same limitations. Until now, these have remained hypotheses that have not been possible to test empirically because reliable, disaggregated data on allocation, claiming and spending of different components of the fiscal transfer system was not available (M. S. Ahluwalia 2000: 8; Shariff et al. 2002). This thesis makes a contribution by creating a panel dataset and testing the co-financing hypotheses.

A key finding from the analysis of SPA and CSS data (as we will see in Chapter 5) was that poor states, besides spending less, also claimed less to begin with. One of the conditions associated with CSS grants is that further grants cannot be given unless the money made available has been spent. Poor states, due to their inability to spend, therefore receive less. The analysis of SPAs shows that poor states claim less per capita allocations. Literature on SPAs in India already acknowledges this for an earlier period<sup>69</sup> (World Bank 1995), and the subsequent analysis shows that this trend continued into the period 1997-98 to 2004-05.

#### **4.4 Constructing the Data Sets**

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This section describes the two data sets on centre-state fiscal transfers that I assembled for this research. The first set, on CSS transfers, is unique, and based on locating and collating details of state-wise release/claims and use/spending buried within separate divisions of many departments across Central Government ministries. The second data set on SPAs entailed assembling data available from the Planning Commission of India. Before describing these two data sets, I first begin with a brief section on the need for

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<sup>69</sup> See Annexure 3 and Annexure 4.

the data sets and another on the background processes at work within government that have shaped the data and its collection.

#### ***4.4.1 The Need for New Data Sets***

Fiscal transfers from the Central Government to Indian states are an important source of state spending on poverty reduction and development in developing countries with multitier governments. Yet, they have not been subject to the kind of statistical enquiry witnessed for international aid programmes. This is largely because of the poor availability of reliable and suitably-disaggregated data. Though India has done better than other developing countries in statistical scrutiny, the analysis of interstate differentials in the spending of transfers from the Central Government has not been possible so far due to a lack of data:

... very little attention has been paid to the utilisation of the ‘allocated funds’. There is scant information on what is really happening to the budgetary allocations made year after year to implement several development schemes. Are they being fully utilised or not? If not, why? (Shariff et al. 2002)

Therefore, the creation of this dataset is an important contribution of this thesis.

#### ***4.4.2 Issues with Data Collection***

During my fieldwork, I encountered various obstacles in collecting both the CSS and SPA datasets. These issues are described below.

##### ***4.4.2.1 CSS***

Currently, the GOI operates close to 200 CSS schemes through a number of central ministries. In theory, data on CSS financial flows should be readily available. India has a parliamentary democracy, all allocations are authorised by Parliament and Parliament

receives reports of all expenditures authorised by it. The CAG has the duty to exercise oversight over the spending process and reports to parliament each year. So, it is curious why data on spending of CSS grants by states has thus far not been available.

There are potentially five sources of data on CSS:

- 1) The Planning Commission, which collects information on CSS as part of its annual plan review and approval process
- 2) The office of the CAG, which monitors the submission of audit certificates by the state accountant generals (to the central Finance Ministry and other concerned departments in the GOI)
- 3) The Department of Expenditure in the Ministry of Finance, which is supposed to receive expenditure certification reports from the state accountant generals
- 4) The ministries in the GOI that administer each CSS, collect expenditure reports and utilisation certificates directly from state governments and receive audit certificates from the state accountant generals
- 5) Individual departments in state governments that have received CSS transfers

In reality, however, this reporting system is problematic. I discuss problems in obtaining data from each source below.

#### *4.4.2.1.1 Planning Commission*

Each September, the Planning Commission asks states to send proposals for the annual state plan for the forthcoming year by the middle of October. As part of this, states are required to report the approved outlay and estimated expenditure in the current year for each CSS. The letter dated 20 September 2005 from the Planning Commission (copy attached as Annexure 5) is illustrative. It was therefore with some enthusiasm that I

enrolled as an intern in the Planning Commission during my fieldwork in 2005-06.

Officially, the archives of these documents are in the library of the Planning Commission. Unfortunately, however, some of them are not catalogued, some are not identifiable, and some are not actually in the library as they should be. Despite my best efforts, which involved delving into the depths of the dustiest parts of the Commission's library stores and filing formal RTI applications, I was unable to put together a full set for the years between 1997/8 and 2004/5. Furthermore, what I was able to salvage was not usable since elementary precautions like ensuring that states used a standard naming protocol while filing reports for each CSS was not followed.

#### *4.4.2.1.2 Comptroller and Auditor General (CAG) of India*

Sections 3.23.16 to 3.23.27 of the CAG's *Manual of Standing Orders (Audit)* second edition, 2002 (copy attached as Annexure 6) contain detailed instructions on how, at the end of each year, the Accountant General (audit) of each state should check and issue expenditure certificates for all money transferred to states each year for CSS schemes. According to section 3.23.18 of the standing orders, certified copies of the audited expenditure certificates are to be sent to the Ministry of Finance, the administrative department in charge of each CSS, and the concerned state department. The office of the CAG does not collect and collate these in a manner that makes it possible to know the amount of money that has been certified as spent by each state's Accountant General (Audit) against money claimed for each CSS. As per section 3.23.26 of the standing orders, the CAG keeps track only of the quarterly progress of the number of schemes for which expenditure statement was issued, not the amount of money that remains to be accounted for. This is a simplification made possible because of the practise in India of treating money released to states as expenditure for purposes of reporting to parliament.

For example, when the finance minister of India reports the previous year's expenditure to parliament, s/he does so on the basis of the audit certificate provided by the CAG of India. This is called 'accounts' in the budget documents and where it refers to money given to state governments; the figure is not the amount actually spent by the state government, but the amount successfully claimed by it.

The subsequent step—collecting, collating and tracking pending expenditure certificates from each state for each CSS—is not subject to systematic scrutiny by Parliament. This gap in parliamentary oversight has a negative effect on pendency, quality of record keeping and supervision. For example, according to the quarterly report of the Accountant General of Kerala (copy attached as Annexure 7) as of 30 September 2007, audited expenditure certificates for a total of 242 CSS were pending for expenditure certification, the earliest being from the year 1999/2000.

#### *4.4.2.1.3 Ministry of Finance*

One of the intended recipients of certified copies of audited expenditure certificates prepared by the accountant generals in each state is the Department of Expenditure in the central Ministry of Finance. This is therefore a third possible source from which to obtain expenditure data on CSS. Due to delays in preparing and transmitting expenditure certificates by the state accountant generals, it is only to be expected that the availability of these certificates with the Department of Expenditure is compromised. On meeting the concerned officials in the Department of Expenditure, I found that there has been no serious effort to compile even the few reports they do receive. More importantly, no one compiles the numbers arising from these reports and no effort is made to get in touch with the CAG to instruct the defaulting state accountant generals to send the pending reports. This is not surprising given the large and challenging portfolio of the Ministry

of Finance, but I found that this was also a low priority because the finance minister is not required to inform Parliament of the amount of money that remains to be certified as spent from the total money transferred to states each year.

#### *4.4.2.1.4 Central Ministries*

The fourth source from which one could get data was departments of the central ministries that are responsible for administering each CSS. Unfortunately, as the following abstract from the report of a Parliamentary Standing Committee on the Ministry of Human Resource Development shows, ministries do not always maintain information on expenditure:

... a disturbing trend gradually taking roots along with the increase in allocation and utilisation of funds. The Committee observes that as on 1.4.2004, there were as many as 4652 pending Utilisation Certificates for an amount of Rs.5510.85 crore. While appreciating the persistent efforts made by the Department in getting reduced the pending UCs to 2903 amounting to Rs.535.62 crore, the very fact that there are pending UCs highlights the inadequacies of the accounting procedure as well as incapacity of the implementing agencies... there were unspent balances of Rs. 505.53 crore as on 1.4.2005 which reached the figure of Rs. 928.86 crore within a short span of 6 months. (Parliament Standing Committee on Human Resource Department 2007)

Central Government departments were therefore not an easy source for data on spending by states of grants claimed by them. Having spent many years in the civil service, I knew that the problem was not that expenditure data was not collected. Ministry of Finance regulations require individual ministries to collect utilisation certificates from state government departments (not the state accountant generals) before they can release money. The following extract from the orders issued by the finance ministry in this regard makes this amply clear:

No amount will be released to any entity (including State Governments), which has defaulted in furnishing utilization certificates for grants-in-aid released by Central Government in the past without clearance from the Ministry of Finance. In respect of all grants released prior to April 1, 2004, two months' notice may be given to the concerned entities to furnish the required utilization certificates, failing which the amount will be deducted from future releases and credited to government revenue as "refund of unused grants"... The State Governments will, henceforth, furnish monthly return of Plan expenditure – Central, Centrally Sponsored or State Plan – to respective Ministries/Departments along with a report on amounts outstanding in their Public Account in respect of Central and Centrally Sponsored Schemes. (Kishore 2005)

Therefore, the problem had more to do with inadequate attention to collating the data and keeping it in a form that was easily accessible. Without a non-negotiable and annually occurring deadline from Parliament, the minister in charge and his departmental secretary felt no need to prioritise this task.

#### *4.4.2.1.5 State Governments*

I therefore faced a choice. Either I could travel to each state capital and put together the dataset by sourcing data from each of the state departments that implemented each CSS, or I could try to do the same with Central Government ministries. Given the logistical challenge involved in travelling to so many state capitals, I decided on the latter and focused my efforts on ministries in Delhi.

#### **4.4.2.2 State Plan Allocations**

The SPA dataset, fortunately was much easier to assemble. Thanks to my internship with the Planning Commission during my fieldwork, I was able to locate the person who had steadfastly kept track of this data. Plan data was also much easier to collect because it is headline news each year when at an annual event a team led by the chief minister of each state comes to the Planning Commission to discuss the plan expenditure of the previous year and agree to the plan allocation for the forthcoming

one. Plan allocation and expenditure data therefore receives attention from the highest echelons in the planning commission. Though CSS data is also collected as part of the same exercise, no one in the Planning Commission pays any real attention to it because it is seen as an activity for which the concerned central ministry is in charge. Even so, obtaining the SPA data required me to file an RTI application with the public information officer of the Planning Commission, who then directed the holder of the information in the Commission to make it available to me.

#### **4.4.2.3 Data Reliability**

The two datasets on CSS and SPA are therefore the product of a year and a half of concerted effort. My CSS data set was assembled from information obtained from a variety of divisions in several departments in different central ministries. The data comes from the spending reports they collect from individual states, on the basis of which they have been releasing grants. These are not audited statements and I am aware that state governments have an incentive to overstate spending so as to become eligible for the next transfer instalment. I looked into this, and given the awareness within the system that these numbers will at a later stage be subject to audit, I am reasonably confident that the data is not influenced by any systematic bias in either direction so as to make it spurious. As for the SPA data, this danger is not present as the source of information is the planning commission, which is the body that gives the final approval for the SPA for each state for each year.

#### **4.4.3 The CSS Dataset**

CSS allocation for a central ministry is approved when the Indian Parliament approves the central budget. Because CSS funds are released to state governments and spent by agencies of the state government, there is a delay between Central Government release



and their actual use. In some cases, this money is never spent and lies in the bank accounts of autonomous agencies (like the DRDA) that have proliferated in the last two decades. In others, all or part of this money is not released by state finance departments to the state agency responsible for spending. When either of these situations occurs, subsequent release of funds by the central ministry gets delayed. During informal discussions, senior CAG officials indicated to me that the unaccounted-for money already transferred to state governments and its autonomous agencies could total billions of pounds. Financial rules require that where grants have been given for a specific purpose, utilisation certificates are to be sent to the state accountant general by the concerned state department within 15 months. In 2001/2 in Bihar for example, out of a total grant of £189 million, the state accountant general had received utilisation certificates for only £13 million before 30 June 2003, leaving £176 million (93 per cent) unaccounted for (Accountant General Bihar 2003).

It is this inter-state variation in use of CSS grants that I seek to exploit in order to empirically test the statistical significance of certain independent variables in explaining the variation in percentage use of CSS grants (the dependent variable). By using amount spent as a percentage of amount claimed (of CSS) as a proxy for the degree to which governments pursue pro-poor policies, I hope to throw fresh light on why Bihar, with its preponderance of poor people, failed to implement policies directed at the needs of the poor.

The data set on claimed and spent CSS grants covers 62 schemes implemented by 16 states, over an 8-year period from 1997 to 2005<sup>70</sup>. In statistical parlance, this is called a

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<sup>70</sup> During this period, the states of Bihar, Uttar Pradesh and Madhya Pradesh were bifurcated. This does not materially affect the analysis because the dependent variables are per capita

‘panel data set’, because it has both time series (years) and cross section (states) elements. This data covers 91 per cent of India’s population, 80 per cent of its area and 65 per cent<sup>71</sup> of the value of CSS releases during this period. It relates to schemes operated by the ministries of Rural Development, Agriculture, Health, and Human Resource Development.

Availability of data has dictated the choice of schemes for inclusion in the data set. Changes in names of schemes have been dealt with by integrating data from the successor scheme with the original. This has been possible in cases where the name of the scheme has changed, but its main features have not. In the case of CSS that were terminated during the time period covered by the data set and a logical successor was not available, the truncated data for the original scheme was used. This was not problematic because the impact of this truncation would have been felt by all states, and because absolute numbers were not used in the regression analysis. All of the data were normalised values, either percentage or per capita.

#### **4.4.4 The SPA Dataset**

Like CSS, the SPA data has also been put together as a panel data set. It captures the size of annual development plans for the same 16 states over the same eight-year period from 1997/8 to 2004/5. As explained earlier, the Planning Commission of India invites state governments each year to submit details of development activities they propose to undertake along with arrangements for financing the plan. The Commission, after discussions and suitable modifications, approves these and indicates the extent of

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CSS claimed, per capita SPA claimed, percentage CSS spent, per capita CSS spent and not its absolute values. Per capita and percentage numbers are not affected by state division because these are normalised numbers—i.e. as the state divides, both the numerators and the denominators used to derive the percentage and per capita numbers change simultaneously.

<sup>71</sup> Based on outlay and expenditure for 2004/5.

central assistance it will provide. After ascertaining the states own resource position, the gap (if any) is met from market borrowings. State governments in India require the permission of the Central Government before they can borrow from the market. The annual limit for this borrowing is confirmed while approving a state's annual plan. In addition to its own resources, central assistance and market borrowing, two other components in a state's plan are CSS and ACA. In recent years, the size of CSS and ACA has increased.

Unlike the CSS data set, the SPA data was much easier to collect because the Planning Commission keeps a good record of annual state wise allocations that they approve. There was also no issue with truncation because state plans have had an unbroken run since the 1950s.

Our current understanding on state plans is that poor states have lower per capita allocations. However, this is based on data prior to 1997 (World Bank 1995). The dataset on SPA helps us understand if this trend has persisted for the period 1997/8 to 2004/5.

## **4.5 Summary**

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This chapter provided a discussion of why it was appropriate to use inter-state variations in centre–state fiscal transfers, claimed and spent by states, to identify trends that will help to explore the reasons why Bihar, failed to implement policies directed at the needs of the poor. It further outlined the centre–state fiscal transfer arrangements in India, summarised existing literature on the subject and explained why I needed to invest substantial time and effort in assembling the two data sets.

In the following chapter, an analysis of the panel datasets shows how poor states claimed and spent less, both in per capita and percentage terms, than better off states during the 1997/8 to 2004/5 period. This finding illustrates that the failure to use centre–state fiscal transfers to pursue pro-poor policies was a nation-wide problem, rather than a feature unique to Bihar. Bihar was, however, special in the sense that it did worse during this period than its level of poverty would have predicted.

## Chapter 5 – Bihar in Context: A Statistical Analysis of CSS and SPA Data

In this chapter, I analyse the two panel data sets on CSS and SPA explained in the last chapter. To begin, I use a statistical analysis to answer two broad questions. Firstly, what determines differences among Indian states in the extent to which they succeed in *claiming* fiscal transfers that are in principle available to them? To answer this question, I estimate two regression equations, first with per capita release of CSS and then with per capita SPA as the dependent variables. The second question is similar: what determines differences among states in the extent to which they *spend* the fiscal transfers they succeeded in claiming? As with the first, I explore this question by estimating two regression equations. The first using the percentage of CSS spent and the second using the amount of CSS spent per capita.

In all four regressions<sup>72</sup>, I use Panel Corrected Standard Error (PCSE)<sup>73</sup> estimators in STATA. One result stands out very clearly: poorer states are less successful in claiming and spending fiscal transfers. There are also some consistent correlations with the performance of state governments in raising taxes (what I have called ‘tax take’), but there are difficulties in interpreting this unambiguously. This main finding about the effect of rural poverty has major implications for public policy in India, and is valuable in its own right. It is however, from the perspective of this thesis, largely a by-product of my research method. I therefore do not explore its implications in any detail, except

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<sup>72</sup> For the statistical analysis in this chapter, I used methods learned during my time completing an MSc in Research Methods at the University of Sussex, auditing the econometrics course of the MA Economics at Sussex and attending the University of Essex summer school on panel data analysis of small ‘n’ data sets.

<sup>73</sup> The PCSE method was popularised by (Beck and Katz 1995) when they pointed out the pitfalls in using the generalized least squares (GLS) method first described by (Parks 1967).

to report that an important purpose of fiscal transfers, namely to reduce disparity between rich and poor states was not being met. On the contrary, the combined effect of poor states claiming and spending less money had the effect of making an already bad situation worse. It did so by reinforcing the regressive impact of economic liberalisation in India, where rich states attracted almost all of the new investments (Kurian 2008).

For the purposes of this thesis, I am interested in these regression results mainly because they enable me then to ask a third, more specific question about Bihar. The question is this: given that poor states generally tend to perform worse in accessing and using central government fiscal transfers, was the poor performance of the Bihar government in this respect over the period 1997/8 to 2004/5 no more than a reflection of its poverty? If that were the case, then I could conclude that, however damaging the governance practices of Lalu Prasad Yadav seemed to be, this data provides no evidence that Yadav deprived Bihar of resources more than one would expect for such a poor state.

The regression equations described above allow me to 'predict' the extent to which a state government at Bihar's level of rural poverty would under-perform in claiming and spending central transfers. I find that Bihar performed worse than its poverty levels would have predicted. I have already explained the character of governance under Yadav and the concept of under-claiming and under-spending in Chapters 2 and 3, and I go on to explain the underlying political motivations in the next chapter.

## 5.1 The Regressions

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Following Beck and Katz (1995), I use PCSE estimators for analysing both panel<sup>74</sup> datasets. With data on 16 states over eight years, there are 128 data points in each dataset. Economists rarely work with such ‘small n’ datasets (those with so few data points) because large datasets are normally available for both firms and individuals. Students of comparative political economy, however, have to deal with case numbers that are both too large and too small<sup>75</sup>: ‘too large for reasonable qualitative analysis and... too small for reasonable quantitative analysis’ (Kittel 1999). PCSE estimators, first suggested by Beck and Katz (1995), solves the technical problems associated with panel estimations of small ‘n’ data sets, provided it is acknowledged that the results are not general relationships that hold as a rule<sup>76</sup> (Kittel 1999).

The general specification used in the four models in this thesis is:

$$y_{it} = \alpha_i + \beta_1 X_{1it} + \beta_2 X_{2it} + \dots + \epsilon_{it}$$

Statistical estimation enables testing the relationship between the independent variables on the right hand side of the equation and the dependent variable on the left hand side. For example in *Model A*, the dependent variable is the per capita release of CSS funds and in *Model B* the dependent variable is per capita SPA. A variable is anything that takes on different values. For example, per capita income is a variable because it takes

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<sup>74</sup> Datasets that have both time series and cross section elements are also known as panel, pooled or time series–cross section datasets.

<sup>75</sup> For example, Friedland and Sanders (1985) used a dataset with 12 cross sectional elements and six time series elements to estimate the political determinants of economic growth in advanced industrial societies. Another is Pampel and Williamson (1988) who used a dataset with 18 cross sectional elements and seven time series elements to estimate the political determinants of welfare spending in advanced industrial societies.

<sup>76</sup> One reason for this is that the small n data set cannot be interpreted as being a representative sample of a population. It is the population itself. Therefore, the relationships that emerge will be valid for the concerned dataset only.

on different values in different years in different states. A variable is called a dependent variable when it is used to test whether a change in an independent variable results in a proportional change in the dependent variable. Statistical estimation tells us if the dependent and independent variables co-vary (i.e., vary together) in a statistically significant way. Only theory can tell us whether the observed covariance has causal significance, and which variable should be the dependent variable.

Listed below are the specifications of the four models. First two estimate differences in claiming fiscal transfers, while the later two estimate differences in spending what has been successfully claimed. These are explained in subsequent sections where I also report the results.

**5.1.1 Question 1: What determines differences among Indian states in the extent to which they succeed in claiming fiscal transfers?**

**Model A:** PCSE model with state dummies where per capita release of CSS funds is the dependent variable.

$$\begin{aligned} CSS\ Release_{it} = & \alpha_i + \beta_1 Tax\ Take_{it} + \beta_2 Deficit_{it} + \beta_3 \% \text{ Rural poor}_{it} \\ & + \beta_4 Agri\ Share_{it} + \beta_5 Election\ Dum_{it} + S_i + \epsilon_{it} \end{aligned}$$

**Model B:** PCSE model with state dummies where per capita SPA is the dependent variable

$$\begin{aligned} Plan\ Outlay_{it} = & \alpha_i + \beta_1 Tax\ Take_{it} + \beta_2 Deficit_{it} + \beta_3 \% \text{ Rural poor}_{it} \\ & + \beta_4 Agri\ Share_{it} + \beta_5 Election\ Dum_{it} + S_i + \epsilon_{it} \end{aligned}$$



**5.1.2 Question 2: What determines differences among Indian states in the extent to which they succeed in spending fiscal transfers?**

**Model C:** PCSE model with state dummies where % spent of CSS funds is the dependent variable.

$$\begin{aligned} \% \text{ Expend}_{it} = & \alpha_i + \beta_1 \text{Tax Take}_{it} + \beta_2 \text{Deficit}_{it} + \beta_3 \% \text{ Rural poor}_{it} \\ & + \beta_4 \text{Agri Share}_{it} + \beta_5 \text{Election Dum}_{it} + S_i + \epsilon_{it} \end{aligned}$$

**Model D:** PCSE model with state dummies where per capita spending of CSS funds is the dependent variable.

$$\begin{aligned} \text{CSS Spend}_{it} = & \alpha_i + \beta_1 \text{Tax Take}_{it} + \beta_2 \text{Deficit}_{it} + \beta_3 \% \text{ Rural poor}_{it} \\ & + \beta_4 \text{Agri Share}_{it} + \beta_5 \text{Election Dum}_{it} + S_i + \epsilon_{it} \end{aligned}$$

With these equations in mind, I will now turn to a description of the variables used in these regressions.

## 5.2 The Variables

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The full list of variables used in the regression analysis and their sources are described below, along with a brief discussion on what each variable helps us test. These have been chosen in order to answer the two research questions mentioned above, and also to test the two claims in the literature described in Chapter 4 regarding why states under-claim and under-spend fiscal transfers available to them: lack of state administrative

capacity and the inability to co-finance centre-state schemes. The variables used are described below.

### **5.2.1 Dependent Variables**

*'CSS Release'*: the total money claimed by a state government in a financial year for all CSS schemes for which data is available, divided by the estimated population of the state in that year. There are three stages in the flow of fiscal transfers from the central government to states: allocation, release/claim and use/spend. As explained in Chapter 4, not all schemes have preannounced allocations. They instead use what some call a 'demand led' policy for fund release. This work is therefore limited to the analysis of funds claimed by the state governments and their use. *CSS Release* is the dependent variable in Model A. It approximates the amount available per person or per capita for spending on development programs.

*'Plan Outlay'*: the per capita SPA. It is calculated by dividing the revised annual plan outlay/allocation for each state by its population. The data for this has been sourced from the Planning Commission. It is the dependent variable in Model B.

*'% Expend'*: the percentage expenditure of all CSS funds with a state. It is calculated by aggregating the annual expenditures incurred for each CSS operational within a state, and dividing this aggregate by the total funds available with state for all CSS in a year. For example if IAY, SGSY and NREP are the names of three CSS operational in the state of Kerala in 2003/4, *% Expend* for Kerala for this year is calculated by totalling the expenditure incurred by Kerala in 2003/4 in implementing IAY, SGSY and NREP and dividing this amount by the total funds received/claimed by Kerala for IAY, SGSY and NREP in the year 2003/4. *% Expend* is the dependent variable in Model C. It tells us the

extent to which a state has spent the funds available to it. The data for this variable has been sourced from individual divisions in various departments in the GOI as described in Chapter 4.

*‘CSS Spend’*: the total amount of money spent by a state government in a financial year for all CSS schemes, divided by the estimated population of the state for that year. *CSS Spend* is the dependent variable in Model D. It gives the amount spent per person or per capita on development programs.

### **5.2.2 Independent Variables**

These variables are common in all the four Models: A, B, C and D.

*‘Tax Take’*: the total taxes collected by a state government in a given financial year, normalised for its level of GSDP. It is calculated by dividing total taxes collected by a state by the state’s GSDP in that year. It does not include non-tax income like user fees or dividends from government companies or taxes collected by the central government and shared with states. This ratio captures the extent to which a state is willing and able to extract revenue from its citizens. Some, like Arbetman and Kugler (1997), have argued that governments with a greater ability to extract revenue also have greater political capacity and vice versa. Publications from the Reserve Bank of India are the source for this data.

*‘% Rural Poor’*: the proportion of poor (as per the official poverty line) in the rural population in the state<sup>77</sup>. This variable reveals whether there is a statistically significant

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<sup>77</sup> I chose to work with data on rural poverty rather than urban or total poverty because 90% of the population of Bihar is rural with very little change over the three census periods that this

relationship between poverty and the dependent variable. For example, if in Model A the estimated coefficient for poverty is negative and statistically significant, it signals that as poverty levels rise, per capita claiming of CSS grants falls. Data on poverty has been sourced from Himanshu (2007). He has data only for the years 1993 and 2004, and so I have assumed that poverty grew/fell at a fixed rate between 1993 and 2004 while calculating data for the intervening years<sup>78</sup>.

*'Deficit'*: the amount of gross fiscal deficit is a proportion of GSDP. It enables us to test the validity of the hypothesis that the inability to co-finance is a reason for inability to claim and spend CSS grants. The appropriateness of this test is dependent on the validity of the assumption that states that do not face fiscal crises will be able to source the funds to fulfil co-financing commitments. I have closely observed the functioning of finance departments in a number of Indian states and served as secretary of the department of finance in one. I have found that because CSS funds come as grants, finance officers and ministers prioritise the fulfilment of co-financing commitments as long as salary and debt commitments enable them to do so. Thus, my experiences suggest that this assumption is valid. Publications from the Reserve Bank of India are the source for this data.

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data set covers. For example the percentage of urbanization in Bihar in 1991, 2001 and 2011 was 10.4, 10.4 and 11.3 respectively (Office of the registrar general of census of India).

<sup>78</sup> Sen and Himanshu (2004b, 2004a) and Himanshu (2007) show that the 55<sup>th</sup> round (1999-2000) of the NSS uses a different methodology from all previous thick quinquennial rounds of the NSS. Its results are therefore not comparable with the earlier and later thick quinquennial (61<sup>st</sup> i.e. 2004-05) NSS rounds. The 61<sup>st</sup> round and earlier rounds except the 55<sup>th</sup> (1999-2000) canvassed information on consumption expenditure based on a 30-day uniform recall period for all items and also by the 365-day recall period for five less frequently consumed items – education, institutional medical care, durables, clothing and footwear. The 55<sup>th</sup> round consumption expenditure survey schedules are not comparable to the others for two reasons. First, it collected information for food items based on seven-day recall and, second, it asked only 365-day questions for the five infrequently purchased items. Following this experts no longer use the 1999-2000 NSS 61<sup>st</sup> round for comparisons and most including Deaton and Drèze (2009) use Himanshu (2007) as the authoritative source for comparable data on poverty data for different Indian states.

*'Agri Share'*: the share of agriculture in GSDP. This variable is necessary to control for the effect of poverty (or per capita income) and share of agriculture in GSDP so that the tax-GSDP ratio (what I have called tax take) will be comparable across states. This follows from Wagner's law, identified as early as 1877, which states that countries with higher per capita incomes and lower shares of agriculture in GDP tend to have higher tax-GDP ratios. National income tables published by the Central Statistical Organisation in the Ministry of Statistics and Programme Implementation are the source for this data.

*'Election Dum'*: an election dummy variable. It takes a value = 1 in years when there was an election to the state assembly or national parliament. In other years it is given a value = 0. The dummy variable has been introduced to control for the effect of increased availability and spending during election time. The Election Commission of India is the source for this data.

*'S (individual names of states)'*: a dummy for each state. These dummies help control for omitted variables that differ between cases but are constant over time.

As detailed in Chapter 4, the little that has been written on fiscal transfers in India speculates that low state administrative capacity and inability to co-finance account for states' inability to use fiscal transfers they receive. Thanks to these variables, particularly the fiscal deficit variable and the new CSS dataset, I am able to test the co-finance hypothesis.

The state administrative capacity hypothesis however could not be fully tested due to ambiguity with interpreting the tax take variable. In the description of the tax take

variable above, I referred to Arbetman and Kugler (1997) and their argument that states that extract more revenue as tax from its citizens can be said to have greater political capacity. While this relationship may be valid in the long run and one could consider using it as a proxy for state administrative capacity, I am sceptical about using this for two reasons. One reason is practical: eight years (the time period of my data set) is too short a period for changes in tax take to be due to changes in state administrative capacity. The second is theoretical: difference in tax take could be due to difference in scope rather than capacity (Fortin 2008; Fukuyama 2004). As Fortin states,

The differentiation between scope and capacity becomes even more important in the case of post-communist countries since the scope of the Soviet state was extended to its maximum, while its administrative capacity was more limited... communist states, even with extensive surveillance and coercion apparatuses, were not necessarily capable and efficacious states... distinction between infrastructural and despotic power is particularly salient... while the Soviet Union may have been exceptionally repressive, it was administratively weak... (Fortin 2008: 3)

Therefore the statistical significance and sign (+ or -) of the tax take variable in each of the four models do not give us an unambiguous measure for state administrative capacity.

### **5.3 Determinants of Fiscal Transfers (Claimed)**

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In this section, I use the CSS and SPA datasets to examine whether poor states are less successful in claiming fiscal transfers from the central government.

#### **5.3.1 Model A: PCSE Model with State Dummies (Per Capita Release)**

$$CSS\ Release_{it} = \alpha_i + \beta_1 Tax\ Take_{it} + \beta_2 Deficit_{it} + \beta_3 \% Rural\ poor_{it} + \beta_4 Agri\ Share_{it} + \beta_5 Election\ Dum_{it} + S_i + \epsilon_{it}$$

The dependent variable ( $CSS\ Release_{it}$ ) captures variation in per capita CSS release in relation to increases or decreases in poverty levels ( $\% Rural\ poor_{it}$ ), ability to co-finance ( $Deficit_{it}$ ) and tax take ( $Tax\ Take_{it}$ ). The three independent variables are the percentage rural population who are poor ( $\% Rural\ poor_{it}$ ), fiscal deficit ( $Deficit_{it}$ ) and tax take ( $Tax\ Take_{it}$ ).

The other independent variables in the regression equation are: the share of agriculture in GSDP ( $Agri\ Share_{it}$ ) to account for the influence of agriculture on the tax-GSDP ratio; an election year dummy ( $Election\ Dum_{it}$ ) to account for spikes in CSS spending due to elections; and state dummies ( $S_i$ ) to control for omitted variables that differ between cases but are constant over time. These variables are treated as controls in this regression.

The results from estimating the above model are detailed in Table 5.1. Rows with a grey band denote statistical significance at 90 or 95 per cent level.

**Table 5.1 Determinants of per capita CSS release**

| CSS Release         | Coef.     | Std. Err. | z       |
|---------------------|-----------|-----------|---------|
| <b>% Rural poor</b> | -.000146  | .0000469  | -3.11** |
| <b>Deficit</b>      | -.000012  | .0000251  | -0.48   |
| <b>Agri Share</b>   | .0001421  | .0002959  | 0.48    |
| <b>Election Dum</b> | .0001856  | .0001279  | 1.45    |
| <b>Tax Take</b>     | .000107   | .0000795  | 1.35    |
| <b>Andhra</b>       | -.0033498 | .0008311  | -4.03   |
| <b>Assam</b>        | .0008899  | .000331   | 2.69    |
| <b>Bihar</b>        | .0024002  | .0008201  | 2.93    |
| <b>Gujarat</b>      | -.0024164 | .000558   | -4.33   |
| <b>Haryana</b>      | -.0026482 | .00069    | -3.84   |

|                                       |  |           |          |       |
|---------------------------------------|--|-----------|----------|-------|
| <b>Himachal</b>                       |  | .0002569  | .0008169 | 0.31  |
| <b>Karnataka</b>                      |  | -.0019086 | .0005388 | -3.54 |
| <b>Kerala</b>                         |  | -.0031974 | .0006598 | -4.85 |
| <b>MP</b>                             |  | .0008413  | .0005211 | 1.61  |
| <b>Maharashtra</b>                    |  | -.0004345 | .0004942 | -0.88 |
| <b>Orissa</b>                         |  | .0037534  | .0009194 | 4.08  |
| <b>Punjab</b>                         |  | -.0044249 | .0009426 | -4.69 |
| <b>Rajasthan</b>                      |  | -.0016546 | .0005323 | -3.11 |
| <b>Tamil Nadu</b>                     |  | -.0014388 | .0004793 | -3.00 |
| <b>UP</b>                             |  | .000247   | .0005946 | 0.42  |
| <b>_cons</b>                          |  | .0062494  | .0017879 | 3.50  |
| <b>R<sup>2</sup> = 0.7991</b>         |  |           |          |       |
| <b>* - 90% level of significance</b>  |  |           |          |       |
| <b>** - 95% level of significance</b> |  |           |          |       |

*OLS regression with panel corrected standard errors for 16 major states from 1997 to 2005.*

The results from this regression confirm that, as levels of poverty ( $\% Rural\ poor_{it}$ ) rose, states systematically received less per capita CSS grants ( $CSS\ Release_{it}$ ). There is a statistically significant negative relationship between rural poverty ( $\% Rural\ poor_{it}$ ) and per capita CSS release ( $CSS\ Release_{it}$ ). The other two independent variables, tax take ( $Tax\ Take_{it}$ ) and deficit ( $Deficit_{it}$ ), are not statistically significant.

What are the causal pathways that drive this result? Officials in central ministries have a mandate to move vast amounts of money. Their performance appraisal depends on how much they are able to report as spent, as does the ability of the departmental minister to stand up to parliamentary scrutiny. Given that grant rules require that previous instalments have to be spent before a fresh claim can be entertained, officials have two choices. One is to look for reasons why poor states are unable to spend and then try to address it (the harder option). The second is to pass on unclaimed money to those who are able to spend (the easier option). As the results from estimating Models C and D



show, the states that received this ‘passed on’ money are states with low levels of poverty. Unfortunately, in a political climate in which states compete against each other and in an administrative culture in which it is easy to shift the blame for failure from the Central Government to states, there is very little motivation to pursue the harder of the two options<sup>79</sup>.

Having examined claim patterns with respect to CSS and finding that states with high levels of poverty appear to claim less, I now turn to examine SPA claiming patterns using the second of the two datasets.

### 5.3.2 Model B: PCSE Model with State Dummies (Per Capita SPA)

$$\begin{aligned} Plan\ Outlay_{it} = & \alpha_i + \beta_1 Tax\ Take_{it} + \beta_2 Deficit_{it} + \beta_3 \% Rural\ poor_{it} \\ & + \beta_4 Agri\ Share_{it} + \beta_5 Election\ Dum_{it} + S_i + \epsilon_{it} \end{aligned}$$

The dependent variable captures variation in per capita SPA (*Plan Outlay<sub>it</sub>*) as poverty levels (*% Rural poor<sub>it</sub>*), ability to co-finance (*Deficit<sub>it</sub>*) and tax take (*Tax Take<sub>it</sub>*) increase or decrease. The three independent variables are the percentage rural population who are poor (*% Rural poor<sub>it</sub>*), fiscal deficit (*Deficit<sub>it</sub>*) and tax take (*Tax Take<sub>it</sub>*). The controls remain the same<sup>80</sup> as in the earlier model. The estimation procedures, period and independent variables are identical to the ones used in the analysis of CSS release (*CSS Release<sub>it</sub>*). The results are presented below in Table 5.2. As before, rows marked in grey highlight variables that are statistically significant at 90 or 95 per cent.

<sup>79</sup> Lack of data and statistical enquiry has also helped perpetuate this situation.

<sup>80</sup> The controls are share of agriculture in GSDP to account for influence of agriculture (with its low taxability) on ratio of Tax to GSDP; the election year dummy to account for spikes in outlay due to elections; and state dummies to control for omitted variables that differ between cases but are constant over time.

**Table 5.2 Determinants of per capita plan outlay**

| Plan Outlay                    | Coef.     | Std. Err. | z       |
|--------------------------------|-----------|-----------|---------|
| % Rural Poor                   | -31.79119 | 9.703304  | -3.28** |
| Deficit                        | 2.97543   | 10.35556  | 0.29    |
| Agri Share                     | -8.893057 | 131.1648  | -0.07   |
| Election Dum                   | -5.48742  | 37.36078  | -0.15   |
| Tax Take                       | 39.53012  | 20.97387  | 1.88*   |
| Andhra                         | -351.5254 | 260.2924  | -1.35   |
| Assam                          | -143.1904 | 94.01246  | -1.52   |
| Bihar                          | 77.15677  | 156.856   | 0.49    |
| Gujarat                        | 242.1531  | 159.2098  | 1.52    |
| Haryana                        | -241.7585 | 178.3886  | -1.36   |
| Himachal                       | 1158.7    | 180.6008  | 6.42    |
| Karnataka                      | 350.8438  | 204.5634  | 1.72    |
| Kerala                         | -174.7122 | 195.4956  | -0.89   |
| MP                             | 58.40294  | 134.5924  | 0.43    |
| Maharashtra                    | 386.8431  | 93.37255  | 4.14    |
| Orissa                         | 612.6313  | 162.1125  | 3.78    |
| Punjab                         | -298.4172 | 230.1946  | -1.30   |
| Rajasthan                      | -229.2553 | 126.22    | -1.82   |
| Tamil Nadu                     | -89.9907  | 141.3355  | -0.64   |
| UP                             | -27.4775  | 75.59896  | -0.36   |
| _cons                          | 1467.545  | 335.5254  | 4.37    |
| <b>R<sup>2</sup> = 0.8560</b>  |           |           |         |
| * - 90% level of significance  |           |           |         |
| ** - 95% level of significance |           |           |         |

OLS regression with panel corrected standard errors for 16 major states from 1997 to 2005.

The results from this regression on per capita plan outlays (*Plan Outlay<sub>it</sub>*) are similar to that from the regression on CSS release (*CSS Release<sub>it</sub>*). They confirm that as poverty levels rise, states systematically receive lower levels of per capita SPA. This is because there was a statistically significant negative relationship between rural poverty (*% Rural poor<sub>it</sub>*) and per capita SPA (*Plan Outlay<sub>it</sub>*). Tax take (*Tax Take<sub>it</sub>*) also has a statistically significant, but positive, relationship. As tax take (*Tax Take<sub>it</sub>*) went up during the period, per capita SPA (*Plan Outlay<sub>it</sub>*) also went up. It is tempting to

conclude that the statistical significance and positive sign of the coefficient of tax take implies that state administrative capacity has a positive impact on the ability of states to claim SPA, and in all likelihood this would be a correct statement to make. However, I hesitate to do so for the theoretical reasons stated earlier and because the data set covers only an eight-year period. Finding a proxy measure for state administrative capacity that can be used in quantitative analysis, is sensitive to short run changes, and for which data is available, is a challenge I have not been able to meet.

#### **5.4 Determinants of Fiscal Transfers (Spent)**

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In this section, I use the CSS dataset to examine the relationship between poverty levels and states' ability to spend the fiscal transfers they have successfully claimed from the Central Government. From the earlier two regressions (Models A and B), we know that there is a negative relationship between poverty and ability of states to claim centre-state fiscal transfers. If the following two regressions also show a similar negative relationship, these findings have serious implications for the ability of poor states to pursue pro-poor policies and for India's efforts to reduce disparities between poor and rich states.

##### **5.4.1 Model C: PCSE Model with State Dummies (% Expenditure)**

$$\begin{aligned} \% \text{ Expend}_{it} = & \alpha_i + \beta_1 \text{ Tax Take}_{it} + \beta_2 \text{ Deficit}_{it} + \beta_3 \% \text{ Rural poor}_{it} \\ & + \beta_4 \text{ Agri Share}_{it} + \beta_5 \text{ Election Dum}_{it} + S_i + \epsilon_{it} \end{aligned}$$

The dependent variable in this model ( $\% \text{ Expend}_{it}$ ) captures impact on CSS spend as poverty levels ( $\% \text{ Rural poor}_{it}$ ), ability to co-finance ( $\text{Deficit}_{it}$ ) and tax take

( $Tax Take_{it}$ ) increases or decreases. The three independent variables are tax take ( $Tax Take_{it}$ ), fiscal deficit ( $Deficit_{it}$ ) and percentage rural population who are poor ( $\% Rural poor_{it}$ ). As in the previous two models the controls are, Share of Agriculture in GSDP ( $Agri Share_{it}$ ), to account for the influence of agriculture on the ratio of tax to GSDP ( $Tax Take_{it}$ ); an election year dummy ( $Election Dum_{it}$ ), to account for spikes in spending due to elections; and state dummies ( $S_i$ ), to control for omitted variables that differ between cases but are constant over time.

The results from estimating the above model are detailed in Table 5.3. As before, the rows in grey denote statistical significance at the 90 or 95 per cent level.

**Table 5.3 Determinants of percentage CSS spent**

|              | % Expend | Coef.     | Std. Err. | z      |
|--------------|----------|-----------|-----------|--------|
| % Rural Poor |          | -1.050135 | .560535   | -1.87* |
| Deficit      |          | .1090443  | .5181121  | 0.21   |
| Agri Share   |          | -3.597874 | 5.730872  | -0.63  |
| Election Dum |          | -.2175154 | 2.333672  | -0.09  |
| Tax Take     |          | 4.304921  | 1.311941  | 3.28** |
| Andhra       |          | -12.53329 | 13.55596  | -0.92  |
| Assam        |          | 4.033478  | 5.290948  | 0.76   |
| Bihar        |          | 6.748021  | 8.692922  | 0.78   |
| Gujarat      |          | -15.92569 | 10.261    | -1.55  |
| Haryana      |          | -14.4802  | 11.12884  | -1.30  |
| Himachal     |          | -6.098623 | 10.81566  | -0.56  |
| Karnataka    |          | -7.088844 | 9.923502  | -0.71  |
| Kerala       |          | -20.93087 | 11.906    | -1.76  |
| MP           |          | 15.66551  | 6.047627  | 2.59   |
| Maharashtra  |          | 13.75129  | 6.577652  | 2.09   |
| Orissa       |          | 27.93209  | 10.13014  | 2.76   |
| Punjab       |          | -27.03202 | 14.61275  | -1.85  |
| Rajasthan    |          | -2.085812 | 8.252837  | -0.25  |

|                                       |  |          |          |      |
|---------------------------------------|--|----------|----------|------|
| <b>Tamil Nadu</b>                     |  | 4.115337 | 9.226784 | 0.45 |
| <b>UP</b>                             |  | 10.58638 | 6.674089 | 1.59 |
| <b>_cons</b>                          |  | 77.11196 | 18.25842 | 4.22 |
| <b>R<sup>2</sup> = 0.5619</b>         |  |          |          |      |
| <b>* - 90% level of significance</b>  |  |          |          |      |
| <b>** - 95% level of significance</b> |  |          |          |      |

OLS regression with panel corrected standard errors for 16 major states from 1997/8 to 2004/5.

The results of this regression indicate that tax take and rural poverty both significantly influence the spending of CSS grants. As the ability of states to collect taxes increases, so too does their ability to spend CSS funds. As the extent of poverty increases, the spending of CSS resources decreases. Contrary to claims in the literature, ability to co-finance does not seem to affect states' expense of CSS funds<sup>81</sup>. If ability to co-finance was a valid factor, the variable (*Deficit<sub>it</sub>*) would have been statistically significant.

#### 5.4.2 Model D: PCSE Model with State Dummies (Per Capita CSS Expenditure)

$$CSS\ Spend_{it} = \alpha_i + \beta_1 Tax\ Take_{it} + \beta_2 Deficit_{it} + \beta_3 \% Rural\ poor_{it} + \beta_4 Agri\ Share_{it} + \beta_5 Election\ Dum_{it} + S_i + \epsilon_{it}$$

The dependent variable (*CSS Spend<sub>it</sub>*) captures the impact on per capita CSS spent as poverty levels (*% Rural poor<sub>it</sub>*), ability to co-finance (*Deficit<sub>it</sub>*) and tax take (*Tax Take<sub>it</sub>*) increase or decrease. The three independent variables are tax take (*Tax Take<sub>it</sub>*), fiscal deficit (*Deficit<sub>it</sub>*) and the percentage of the rural population who are poor (*% Rural poor<sub>it</sub>*). The controls are the same as in the earlier three models.

<sup>81</sup> This does not mean that individual states at some point or the other during this period were not constrained by the availability of money to co-finance. This result only indicates that this was not a statistically significant trend. In some ways, this is the difference between anecdotal findings and systematic analysis of evidence.

The results are given below in Table 5.4: As in Models A, B and C, rows in grey denote statistical significance at the 90 or 95 per cent level.

**Table 5.4 Determinants of per capita CSS spent**

| CSS Spend                      | Coef.     | Std. Err. | z       |
|--------------------------------|-----------|-----------|---------|
| % Rural poor                   | -.0001391 | .0000285  | -4.89** |
| Deficit                        | 3.87e-06  | .0000226  | 0.17    |
| Agri Share                     | -.0001312 | .0003089  | -0.42   |
| Election Dum                   | .0001274  | .0000826  | 1.54    |
| Tax Take                       | .0001857  | .0000469  | 3.96**  |
| Andhra                         | -.0028987 | .0005197  | -5.58   |
| Assam                          | .0008071  | .0002377  | 3.40    |
| Bihar                          | .0019874  | .000473   | 4.20    |
| Gujarat                        | -.002209  | .0003307  | -6.68   |
| Haryana                        | -.0023547 | .0004178  | -5.64   |
| Himachal                       | .0000951  | .0005262  | 0.18    |
| Karnataka                      | -.0016434 | .0003132  | -5.25   |
| Kerala                         | -.002979  | .0004065  | -7.33   |
| MP                             | .0010609  | .0002773  | 3.83    |
| Maharashtra                    | -.000046  | .0002392  | -0.19   |
| Orissa                         | .0036297  | .0005425  | 6.69    |
| Punjab                         | -.0039263 | .0005799  | -6.77   |
| Rajasthan                      | -.0013283 | .0003049  | -4.36   |
| Tamil Nadu                     | -.0010435 | .0002645  | -3.95   |
| UP                             | .0004271  | .0002521  | 1.69    |
| _cons                          | .0048344  | .0010336  | 4.68    |
| $R^2 = 0.8427$                 |           |           |         |
| * - 90% level of significance  |           |           |         |
| ** - 95% level of significance |           |           |         |

*OLS regression with panel corrected standard errors for 16 major states from 1997/8 to 2004/5.*

Per capita spent of CSS ( $CSS\ Spend_{it}$ ) is the net effect of CSS grants claimed by a state government and its rate of spending. In the previous regression (Model C), we saw that as levels of poverty went up, ability of states to spend CSS grants went down. One way that the Central Government could have encouraged poor regions to spend more in per

capita terms might have been to ensure that poor states claimed more in per capita terms to begin with. Even if poorer states still spent a smaller percentage of fiscal transfers than richer states, this could have been a workable, if inefficient, strategy for getting more resources to underdeveloped regions. However from Models A and B, we know that this did not occur, as poverty levels rise the ability of states to claim both per capita CSS and per capita SPA goes down.

Overall, the results from this estimation are similar to those from Model C. States' ability to collect taxes ( $Tax\ Take_{it}$ ) and the extent of rural poverty ( $\% Rural\ poor_{it}$ ) significantly influences per capita CSS ( $CSS\ Spend_{it}$ ) spending. As taxes collected rose, so too did per capita CSS spending. As poverty levels rose, per capita CSS resources reaching citizens/voters decreased.

Taken together, the four regressions indicate that poorer a state, lesser its success in claiming and spending centre–state fiscal transfers. This finding has major implications for public policy in India, and is valuable in its own right. However, I do not pursue this insight except to say that private investment in India tends to flow to better-endowed states (M. S. Ahluwalia 2000). Because of this, the only way to slow the growth of regional disparity (as opposed to reducing it) was by ensuring that poor states claim and spend more fiscal transfers. The results from estimating Models A, B, C and D taken together seem to indicate that this did not happen. The CSS and SPA systems, like private investment, were in fact worsening regional inequality during the 1997/8 to 2004/5 period.

To return to the main line of enquiry that this thesis is pursuing, I will now address to the third question articulated at the beginning of this chapter: was the poor performance

of the Bihar government in claiming and spending transfers a result of its poverty alone?

## **5.5 Was Bihar's Poor Performance Merely a Consequence of its Poverty?**

The statistical results discussed above indicate that Bihar with its high levels of poverty tended to have high levels of under-claiming and under-spending. However, are they in practice higher or lower than one would expect given Bihar's level of poverty in comparison with other states?

### ***5.5.1 Estimating the Predicted or Trend Line for CSS Spent***

In the graph below<sup>82</sup> (Figure 5.1) derived from regression Model C, the fitted line for percentage of CSS spent shows how much under-spending can be expected given the proportion of each state's rural households that are below the poverty line. The distance between the fitted line and the actual annual observation points indicates the direction and degree of under- or over-spending.

The results for four states are especially significant. Tamil Nadu is strikingly successful in spending its CSS allocations. This is consistent with its general reputation for relatively effective and enthusiastic anti-poverty programmes, which seems in turn to be based in large part on a pattern of consistent and close electoral competition between two main political parties, both bidding for the support of the average poor voter (Harris 2005). The opposite pattern is found in the Punjab, where the State Government under-spends its CSS allocations to a marked degree. This too is predictable. Incomes are high

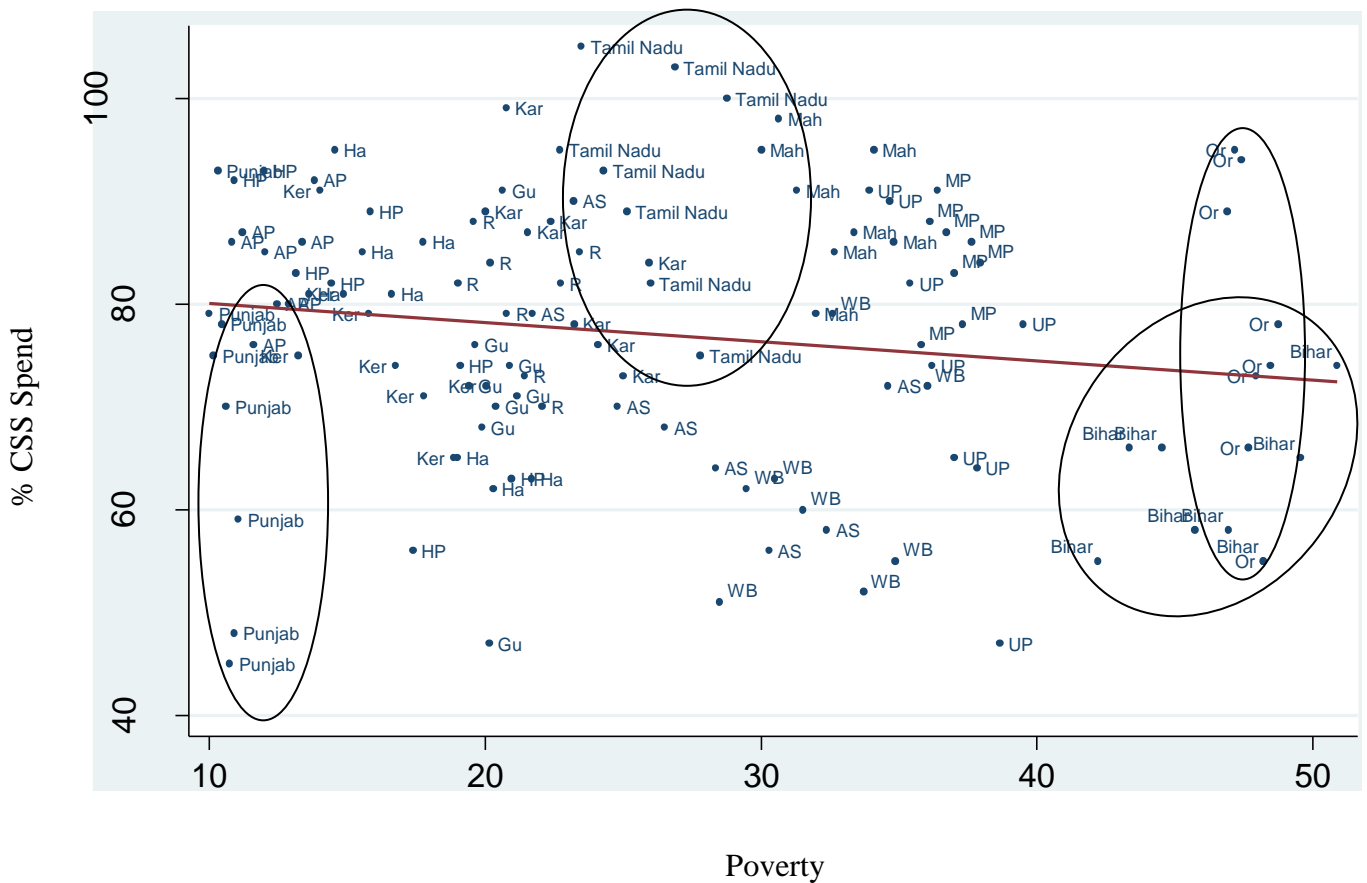
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<sup>82</sup> In these graphs, Bihar, Tamil Nadu and Punjab have their names written in full. The others have short codes which are As (Assam), AP (Andhra Pradesh), Gu (Gujarat), Ha (Haryana), HP (Himachal Pradesh), Ker (Kerala), Kar (Karnataka), Mah (Maharashtra), MP (Madhya Pradesh), Or (Orissa), R (Rajasthan), UP (Uttar Pradesh), and WB (West Bengal).



in Punjab, and the opportunities to exercise political patronage that arise from CSS are of little use to politicians there. The agenda for electoral politics in that state is shaped more by issues around opportunities for investment, profit and international migration of skilled labour. Like Punjab, we can see that Bihar also consistently under-spends relative to its poverty level. Bihar contrasts strongly with Orissa, which is equally poor, but tends to achieve relatively high expenditure levels on CSS schemes.

**Figure 5.1 Trend line for per cent CSS spent**



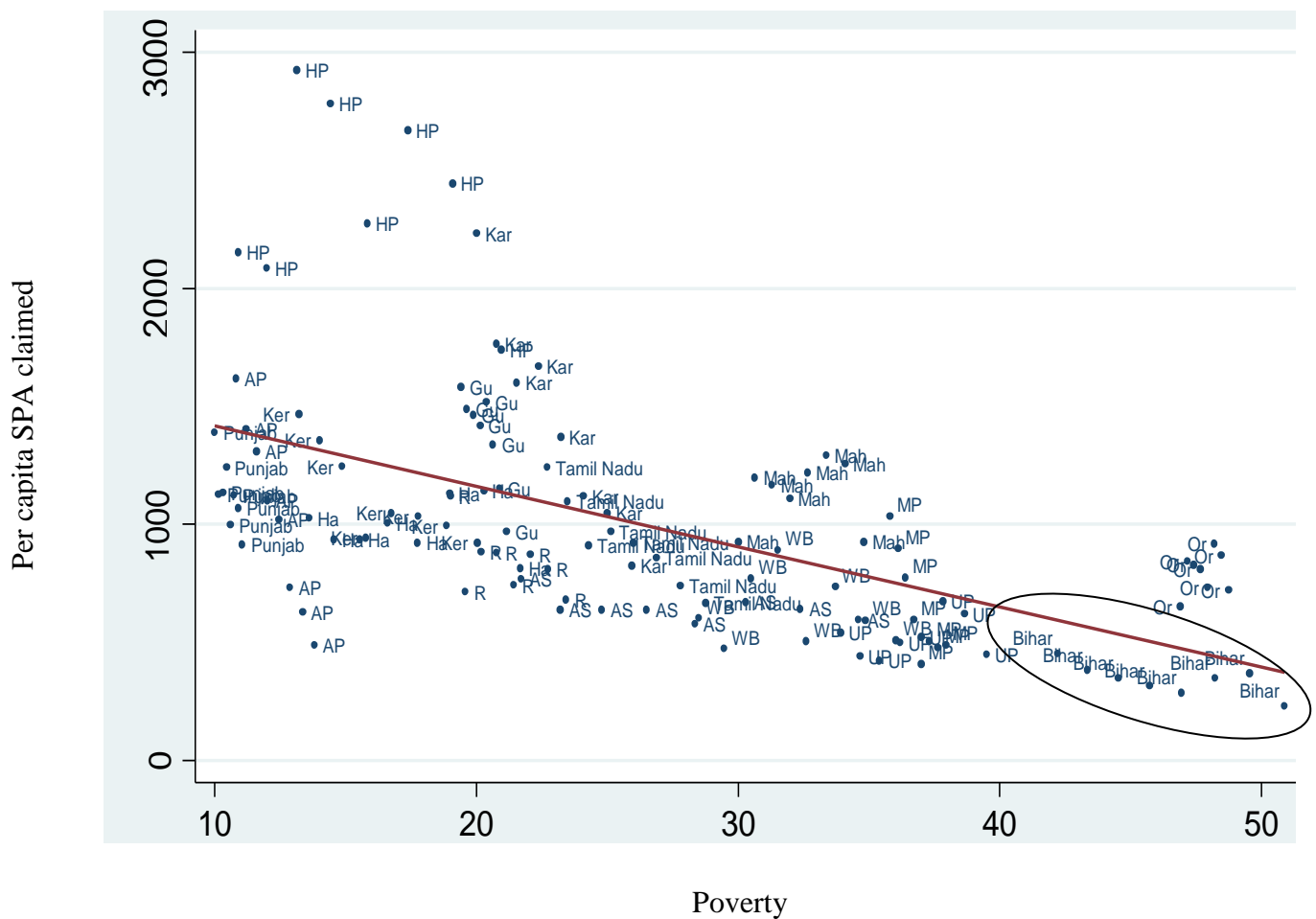
### **5.5.2 Estimating the Predicted or Trend Line for SPA Claimed**

In the following graph (Figure 5.2) derived from regression Model B, the fitted line for per capita SPA claimed shows how much under-claiming can be expected given the proportion of each state's rural households that are below the poverty line. As in the

case of the preceding graph on CSS spent, the distance between the fitted line and the actual annual observation points indicates the direction and degree of under- or over-claiming SPA.

The data on SPA captures the size of annual development plans for the same 16 states over the eight year period from 1997/8 to 2004/5, the same as the CSS data set. In the following graph, all the cross-sectional (16 states) and time series (eight years) elements in the dataset have been pooled like in the graph on CSS spending.

**Figure 5.2 Trend line for per capita SPA claimed**



As in the case of CSS spent, Bihar's SPA data points are consistently below the trend line, indicating that Bihar claimed less SPA than predicted by its level of poverty.

## **5.6 Summary**

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Taken together, the above-described regression results and graphs indicate that the Bihar Government performed worse in practice than predicted by its level of poverty. While this suggests that there must be additional factors at play, these statistical results alone do not enable me to draw any firm conclusion as to the cause of the State's performance. Bihar could have under-performed for reasons that had nothing to do with its governance during the Yadav regime. However, the findings from the graphs matter to this thesis because they are consistent with my field observations about the character of governance in Bihar under Yadav and his party and their underlying political incentives. I will turn to these factors in the next chapter when I present the political logic driving 'state incapacity by design'—the core arguments of this thesis.

## **Chapter 6 – The Core Argument: State Incapacity by Design**

The previous chapter discussed how governments of poor states in India tend to under-claim and under-spend centre–state fiscal transfers. Of these, Bihar performed worse than one would expect for a state with its level of poverty during the leadership of Lalu Prasad Yadav.

This chapter attempts to explain this occurrence by discussing two questions. The first is, what were the proximate reasons for Bihar under-claiming and under-spending centre–state fiscal transfers as described in Chapters 3 and 5? Secondly, how did these proximate reasons coexist with repeated electoral success, credible elections and a majority of poor voters?

In Section 1, I begin by discussing four proximate reasons for Bihar’s particularly bad record in claiming and spending centre–state fiscal transfers. Then, in Section 2, I elaborate two of these reasons: the high number of vacancies and the centralisation of decision making, which were the direct result of a specific political strategy to solidify core electoral support by maintaining a mood of continuous rhetoric and mobilisation against the upper-caste minority. Yadav gave credibility to his rhetoric by refusing to recruit members of those upper castes into the public service, and by maintaining very close political control over the decisions of officers already in service. The costs, knowingly incurred, were loss of administrative capacity and, indirectly, sacrifice of fiscal transfers from Delhi, discussed in Section 3. However, as we will see in Section 4, in instances when it was necessary to deliver important selective benefits to the core

components of his electoral base, Yadav ensured that administrative capacity was preserved. He strove to alleviate the tension inherent in his political strategy by making only very sparing promises about the material benefits that he would bring to his supporters. The tension, described in Section 5, was that, by consistently undermining the capacity of the state apparatus under his control, he limited his ability to deliver normal developmental goods.

However, Yadav's ability to direct the attention of his supporters away from development outcomes and from the numerous corruption cases lodged against him in the courts was limited. His competitors, notably Nitish Kumar, saw the potential to mobilise votes from two under-represented groups: the non-Yadav BCs and the numerous Extremely Backward Castes. Church (1984) preferred to call the Extremely Backward Castes 'lower castes' (see Chapter 3)—a group sandwiched between the 'middle castes' above them and the 'scheduled castes' below. They were marginal farmers, share-croppers, landless labourers, barbers, boatmen, blacksmiths, carpenters, cobblers, oil-pressers, and so on. Kumar also rallied the upper caste vote and sections of the Dalit community (Robin 2009: 88-96) to become chief minister after the 2005 state elections. He quickly gained a reputation for effectiveness and for making gains in development. Most importantly from the perspective of this thesis, Bihar began to benefit from a large increase in fiscal transfers from Delhi—despite the fact that Kumar's party, the Janata Dal (United) (JD(U))<sup>83</sup>, was not a part of the ruling coalition in New Delhi, while the RJD was. This is discussed in Section 6.

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<sup>83</sup> The JD(U) and the RJD both have their origins in Janata Dal and Jayaprakash Narayan's call for Total Revolution in 1974. The Samata Party was formed as an offshoot of the Janata Dal in 1994 by Nitish Kumar and George Fernandes. In October 2003, it merged with the Janata Dal (United).

Yadav later served as railways minister in the Central Government from 2004 to 2009. In this position, he gained a reputation of being a very successful reformer, and for bringing about a marked improvement in the performance of India's poorly performing national railway. It became clear that Yadav could be an effective manager of a large, complex organisation, in large part because he knew how to pick and delegate power to the right kind of people. Therefore, as we see in Section 7, he did not govern Bihar poorly due to incompetence, but rather because he chose to use his talents in other ways. Finally, Section 8 summarises and concludes this chapter.

### **6.1 Proximate Reasons for Bihar's Record of Fiscal Transfers**

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My own experience in working for the governments of Bihar and India since 1985, supplemented by a series of interviews with IAS officers and others in Bihar in 2005–6, suggests that four sets of organisational practices within the Government of Bihar contributed to its demonstrated low capacity to claim and spend centre–state fiscal transfers. These were neither the norm in public administration elsewhere in India nor in Bihar before 1990 or after 2005. The political leadership in Bihar were aware of their consequences. These practices were:

- Centralisation and a multiplicity of layers in decision making
- Poor recordkeeping resulting in an overload of litigation against the state, mostly from employees and suppliers
- Mismatch between the rain, flood and budget cycles
- Vacancies in state government offices, particularly at the middle and senior levels

While some of these practices might be labelled ‘bureaucratic’ in the pejorative sense of the term (procedure as obstacle), others were a failure to observe even the basic bureaucratic routines of record keeping. It would therefore be difficult to explain this behaviour in terms of bureaucratic obstructionism.

### **6.1.1 *Extreme Centralisation***

State governments are large organisations and the delegation of powers is a delicate balancing act to ensure that there is policy coherence and responsiveness to citizen needs. Between 1990 and 2005, I observed a systematic effort in Bihar, both formal and informal, to centralise decision making in the office of the chief minister. The procedure for sanctioning a new scheme is illustrative of this trend. Most central grants to states are released in two or more instalments. The money is routed either to the state government or to an authorised operating agency outside the state but controlled by it. All money received by the state government is credited to the consolidated fund of the state. There are prescribed procedures for spending money from the consolidated fund.

In Bihar under Yadav, unlike in other states, the state cabinet had to approve all expenditures from the consolidated fund of more than 2.5 million rupees (£30,000) - a tiny sum for a government responsible for over 90 million people. This rule applied even for schemes that it had already approved. Consequently, actual spending of the first instalment from Delhi could not even begin until well into the financial year. Since 60 per cent of the initial instalment had to be spent before a second instalment could be claimed, the second instalment often was not even requested or, if requested, arrived too late to be used in the financial year for which it was sanctioned (World Bank 2005).

For example, in October 2002, the relevant departmental committee of the Bihar Government approved a proposal for the release of the first instalment of funding for the NOAPS scheme. The state cabinet also had to approve it, but did not do so until January 2003. By the time the state government requested and received the second instalment from Delhi it was already the 29th of March. The financial year ended two days later and the money could not be used.<sup>84</sup>

A review of the governance problems in Bihar by the World Bank confirmed that:

... there are some additional unique factors that contribute to the governance problems facing Bihar. One of these is Bihar's highly centralized government, which impedes decision-making and project implementation. For example, high-level authorization and committee approval is required for even relatively minor decisions on purchases, tenders, land leases, and other personnel matters. This has led to serious bottlenecks that, among other things, slow the disbursement of funds and the project cycle of government programs. (World Bank 2005: 3)

In a public interest litigation (PIL) on the ICDS, the court commissioner appointed by the Supreme Court of India had this to say on the ₹30,000 provision in Bihar:

There is no such parallel provision in the transaction of business rules neither in the central government nor in any state government. The whole process is time consuming, resulting in delays in release of funds ranging from four to six months. Doing away with this rule in itself will expedite financial releases, giving more time to the field staff to use and then claim second instalments. (N. Nayak and Saxena 2006: 3682)

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<sup>84</sup> In Bihar today, individual government departments can, with the approval of the Finance Department, spend any amount of ongoing schemes once the state budget has been approved by the state legislature.



The problem of excessive centralisation is also evident in the case of transfers and posting of employees. All transfers down to the block level<sup>85</sup> were done at the state headquarters under the influence and control of departmental ministers. This delayed decision-making and affected discipline and control. Consequently, senior officers in the state secretariat remained busy with routine administration, leaving little time for policy issues and capacity building. A World Bank study found that:

... the existing civil service rules envisage a merit-based system of recruitment, placement, promotion, sanctions and rewards. However the system operates in an ad hoc, non-transparent and non-meritocratic manner. Problems related to the work environment (including those faced by women employees), infrastructure, and accommodation, local tensions and delayed salaries together affect staff morale. There also appears to be a breakdown of hierarchy and the loss of control by district magistrates, heads of departments and departmental secretaries over subordinate personnel. The district magistrates appear to be frustrated by centralization, absence of support and understanding from their superiors, and inaction on reports of malfeasance and inefficiency at subordinate levels. (World Bank 2005: 54-55).

The trend to centralise existed also in engineering departments. All works with an estimated outlay over £1,200 needed the approval of an executive engineer and full payment could be made only after the executive engineer signed the measurement book. The financial power of the executive engineer to approve payments was limited to £5,900, and all estimates above this required the scrutiny of a superintending engineer. This procedure seriously delayed projects due to Bihar's huge shortage of engineers (Government of Bihar 2006).

Another example of this concentration of administrative power was the role played by the principal secretary to the chief minister:

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<sup>85</sup> A block is the fourth tier of public administration in India. The first three are state, district and sub-division.

Mukund Prasad has been the most trustworthy official of Laloo Yadav. At various times when Mr. Yadav could not attend to the affairs of the state directly- such as when he was in prison or gone abroad, the reins of the government were not given to some RJD politician but to Mr. Prasad ... Perhaps, in the history of the Indian bureaucracy no other IAS or even ICS officer has wielded so much of power as Mr. Mukund Prasad ... It is not as if Mr. Laloo Yadav was only a figurehead; undoubtedly his was the final word but it was whetted by Mr. Prasad and his opinion was carefully considered and taken into account ... It was clear to everyone in the bureaucracy that none could be posted or transferred and no expenditure can be made without a nod from 'Mukund Babu'. His power was immense and Laloo's (sic) faith in him was complete... Prasad has been a clean officer. Even the worst of detractors would not accuse him of financial irregularity. It was said of him that he would even fine himself if ever his bills were inflated or turned out to be wrong. In the corrupt world of Bihar government Prasad was one of the few who could not be bribed, influenced or compromised. (Verma 2002)

Centralisation of administrative power was therefore a key feature of the Yadav regime, and it played an important role in compromising the ability of the Bihar Government to claim centre–state fiscal transfers from Delhi.

### ***6.1.2 Poor Record Keeping***

Government business in India is conducted according to an elaborate system of formally coded rules and procedures. Good record keeping is vital for such a system to function, and there are clear rules and procedures that prescribe how records are to be maintained, many of which date back to British colonial administration. Over time, this system has fallen into disuse in Bihar. Finding the necessary papers for sanctioning the payment of retirement benefits to staff, whose personal files were typically over 30 years old, became a big obstacle. Deductions made from salaries for credit into provident funds and insurance accounts became problematic because accounts were not properly maintained, and no systematic efforts at computerisation were made.

As a result, the Bihar government in 2005 faced over 5,500 contempt applications in the High Court at Patna. Of these, over 1,500 related to the non-implementation of orders involving the payment of retirement benefits (World Bank 2005: 58). Other contempt applications involved service matters of government employees, irregularities in obtaining land revenue, non-payment of admitted contractual dues and breach of statutory rights by public utilities (Government of Bihar 2006). The large number of contempt applications had two direct effects on administrative capacity. One, senior officials needed to repeatedly appear in person before the judge to either apologise or be punished. Two, it prioritised the welfare of a privileged, largely upper caste, group of citizens (those with the resources to bring legal cases) over other pressing policy concerns. Both of these trends had a debilitating impact on administrative capacity. They reduced the time available to senior management to complete the (complex) formal claiming, accounting and spending procedures they needed to accomplish in order to access the grant programs Delhi had to offer.

### **6.1.3 Budget Procedures**

The budget cycle in Bihar was another reason for the inability of the state to deliver on its spending commitments. The Central Government and most state governments in India pass a full budget before April, as the financial year begins on 1 April. Oftentimes during Yadav's tenure, Bihar did not pass its full budget until June or July (World Bank 2005: 45). In many of these years, the state budget was passed in two instalments; first through a vote-on-account<sup>86</sup> for four months in March and later in June/July for the

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<sup>86</sup> According to the Indian Constitution, all revenues received by a state government and the loans raised by it are to be put into the Consolidated Fund of that State. When the state assembly is not able to vote the entire budget before the commencement of the new financial year, it is necessary to keep enough money at the disposal of government to allow it to run the administration of the state. A special provision is, therefore, made for a 'vote-on-account' through which the government obtains the approval of the state assembly for a sum sufficient to

remaining part of the financial year. Consequently, funds were allotted in instalments to departments and districts, while implementing agencies had to wait and undertake double the paperwork before funds could be received (Government of Bihar 2006). Accentuating the delays caused by the slow budgetary process was the cycle of rains and floods that affect Bihar during the monsoon period from July to October of each year. This cycle limits the period during which engineering works can be carried out.

#### **6.1.4 Large Numbers of Vacancies**

The case of engineers provides a stark example of how understaffing compromised administrative capacity in Bihar. One reason for an acute shortage of engineers in Bihar was that the departmental promotion committee would not hold meetings, and when meetings were held, the committee's recommendations would not be cleared for implementation. The engineer-in-chief positions that commanded the two principal engineering departments in Bihar, the Road Construction Department (RCD) and the Rural Engineering Organisation (REO), both sat vacant for years on end. In 2005 all 15 of the chief engineer positions as well as 81 of the 91 superintendent engineer positions in the two cadres/departments had no incumbents. Although a less severe issue in lower tiers, in 2005 total vacancies amounted to 1,305 of 6,393 positions for executive, assistant and junior engineer roles (Government of Bihar 2006).

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incur expenditure on various items for a part of the year. A vote-on-account deals only with the expenditure side of the government's budget. A budget is a complete set of accounts, including both expenditure and receipts.

This understaffing meant that existing officers were required to look after three to four offices at any one time. Important documents, like the Schedule of Rates<sup>87</sup>, would not be updated for years. Consequently, construction works that could not be tendered out to contractors were completed using unrealistic and out-dated rates for labour and materials, forcing departmental officers to prepare false vouchers and muster rolls to compensate for unworkable rates. The Bihar Government's own white paper analysing the situation said:

There has been an acute shortage of technical personnel at all levels in the Road Construction Department and Rural Engineering Organisation. There has not been any significant recruitment at entry levels and promotions have not materialized. The Quality Control Organisation in the Road Construction Department is non-functional for want of equipment, chemicals and personnel. Advance Planning Wing is also non-functional. There has been a total collapse of technical administration. This is a serious constraint not only for implementation of works but also for preparing project proposals for getting more funds from the Central Government or other sources. (Government of Bihar 2006: 25)

Block development officers (BDO) and circle officers (CO) are senior officers in charge of development and land and revenue administration respectively, at the sub-district level. They work at the front line of government, touching the lives of citizens on a day-to-day basis. If a district magistrate is the government representative at the district level, the BDO/CO is the equivalent at the block/circle level. Yet in 2005 over a third of these positions did not have a full time incumbent. Out of a total of 534 blocks in Bihar State, 193 (36 per cent) did not have a full-time BDO (Government of Bihar 2006). The Bihar Administrative Service (BAS) cadre, from which BDOs, COs and senior officers up to the rank of additional secretary are drawn, had 633 vacancies against a sanctioned

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<sup>87</sup> The Schedule of Rates is a key pricing document used in Measured Term Contracts. These contracts are used to determine payments for maintenance and new works that are not procured through open tender.

strength of 2,248. The Bihar Public Service Commission, responsible for the recruitment of BAS and all class I and II officers, had only three members and its chairman position was vacant for a critically long period (World Bank 2005).

Consequently, orderly decision-making and the conduct of public affairs was severely compromised. Officers barely managed to deal with crises as they emerged and routine but important duties were left unattended. The predominant theme for administrators during this period was *vyavastha* ('manage' in Hindi). *Vyavastha* implied that your competence as an administrator was judged on the basis of how you 'managed' affairs with inadequate human and financial resources. This naturally resulted in administrators turning a blind eye to a range of unorthodox practices including forgery, temporary embezzlement and approvals without adequate scrutiny.

Primary education and health sectors also suffered from a large number of vacancies. Between 1996 and 2006, only 30,000 primary school teachers were recruited out of the 90,000 needed. Consequently, the pupil teacher ratio (PTR), which was already 90:1 against the national norm of 40:1, worsened to 122:1 (Government of Bihar 2006). If efforts under the SSA had achieved its avowed goal of 100 per cent enrolment, this ratio would have increased dramatically. It is pertinent to note that the failure to recruit teachers occurred despite a commitment from the GOI to pay the cost of their salaries.

By 2005, shortages in the health sector amounted to 90 per cent vacancies of doctors and 95 per cent vacancies of paramedical staff (Government of Bihar 2006: 32). The vacancies in sanctioned posts in ICDS program were substantial. Although only 4 per cent of positions at the level of the *anganwadi* (day care centre) worker and helper (the lowest two positions requiring only minimal educational qualifications) were vacant, at

the supervisor level, vacancies amounted to 85 per cent. In the case of child development project officers (CDPOs), 21 per cent of positions were vacant (N. Nayak and Saxena 2006). These vacancies were so extensive that it reflected in the macro figures for Bihar. For example,

... salary expenditure actually declined from almost 50 per cent to 37 per cent over the same period, resulting in diminished administrative capacity in many departments. Most important for growth, expenditure on social services remained constant, at the same time as expenditure on agriculture dropped from 6.8 per cent to 2.2 per cent and on irrigation from 13.3 per cent to 4.7 per cent. This is particularly troubling given the importance of agriculture for Bihar's economy. (Frankel and Witsoe 2006: 8)

Vacancies, therefore, were extensive across most sectors during the Yadav regime. Naturally, this trend negatively affected state administrative capacity, particularly the ability to implement development programs.

## **6.2 The Broad Political Strategy**

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Dalits and even backward caste people were not allowed to wear good clothes or put on shoes in the villages of Bihar. They could not remain sitting or stand with their heads up before upper caste men or argue with them. Such was the stranglehold of the feudal order in the village that upper caste landlords were supposed to have an undisputed right over Dalit and backward caste women. (Bharti 1990: 980)

Attempts to mobilise the majority of Bihar's population against the small minority of upper castes that dominated the state's politics, professions, education systems, police service and public bureaucracy go back many decades (Robin 2009). They were organised and animated in particular by the social movement and Socialist Party led by Jayprakash Narayan and Karpoori Thakur. The fruits of this labour, as measured by representation in the state assembly, began to materialise in the 1970s (see Table 6.1).

In the 1980s, Yadav became prominent among a range of politicians who were reflecting, spearheading and shaping this lower caste revolt<sup>88</sup>. Following their concerted efforts over many years, the pattern of representation in the state assembly changed markedly. The upper castes lost out, although they remained over-represented relative to their numbers, and recently have gained back some of their earlier losses. These losses were mirrored by gains for the Yadav, Kurmi, Koeri and Baniya castes, who are dominantly cultivating and/or trading groups, actually middling in the caste hierarchy.

After the 1977 state elections, the upper-caste MLAs outnumbered the Yadavs, Kurmis, Koeris and Baniya caste members by 50 per cent. As the share of upper caste MLAs decreased over time, the share of these four castes reached a high point in 1995, when they had twice as many MLAs as the upper castes (*Table 7*). The Yadavs are by far the most numerous single caste in the state and by 1995 they were significantly over-represented in the state legislature. Based on these numbers, one could talk of a ‘the rise of the Yadavs’.

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<sup>88</sup> Much the same was happening in other parts of what is often called the ‘Hindi belt’ of northern India, notably in the states of Uttar Pradesh and Madhya Pradesh (Jaffrelot 2009).



**Table 6.1 Percentage distribution of Bihar MLAs among main caste and community groups, in election years (1952, 1977 and onwards)**

|   | 1952  | 1977  | 1980  | 1985  | 1990 | 1995  | 2000  | 2005  |
|---|-------|-------|-------|-------|------|-------|-------|-------|
| <b>Upper Castes*</b>  | 46    | 41    | 37    | 39    | 35   | 22    | 23    | 30    |
| <b>Backward Castes**</b>  | 19    | 28    | 29    | 25    | 34   | 44    | 35    | 35    |
| (of which Yadavs)   | (8)   | (15)  | (14)  | (15)  | (19) | (26)  | (21)  | (23)  |
| <b>Muslims</b>  | 8     | 8     | 9     | 10    | 6    | 7     | 9     | 10    |
| <b>Scheduled Castes</b>   | 14    | 14    | 15    | 15    | 15   | 15    | 15    | 17    |
| <b>Scheduled Tribes</b>   | 11    | 9     | 9     | 9     | 9    | 8     | 9     | –     |
| <b>Others***</b>  | 2     | -     | 1     | 2     | 1    | 4     | 9     | 8     |
| <b>TOTAL</b>  | 100   | 100   | 100   | 100   | 100  | 100   | 100   | 100   |
| Ratio of Upper Caste to Backward Caste Members  |       |       |       |       |      |       |       |       |
|   | 2.4:1 | 1.5:1 | 1.3:1 | 1.6:1 | 1:1  | 0.5:1 | 0.7:1 | 0.9:1 |
| <p>* Upper Castes comprise Brahmins, Bhumihars, Bengalis, Rajput and Kayasthas.</p> <p>** Unlike other parts of this thesis Backward Castes here comprise Yadavs, Kurmis, Koeris and Baniyas.</p> <p>*** From the 1995 elections onward, there is significant representation of the Extremely Backward Caste category</p> |       |       |       |       |      |       |       |       |

*Source: Adapted from Robin (2009: 100) in Annexure 8*

However, the Yadavs only once, in 1995, accounted for more than a quarter of MLAs, when over a third of the Assembly seats were held by Yadav's party (Robin 2009: 86). Yadav created an electoral coalition, organised first as the Janata Dal and then the RJD Party, around (a) his own Yadav caste; (b) other less numerous castes (Kurmis, Koeris

and Baniyas); (c) the Muslim community; and (d) the large, lower-status SC (Dalit) community. However, his command of SC votes became decreasingly certain as their political leaders began to turn the SC vote into an autonomous electoral force. Thus, Yadav commanded votes mainly in the middle rungs of the caste hierarchy<sup>89</sup>.

Although Yadav's core electoral support group did not comprise a majority of the electorate, it was, if effectively managed, well placed to dominate elections and government in a situation in which there were powerful tensions, often spilling over into violence, among a range of groups positioned slightly differently in the caste hierarchy. He solidified his core electoral support by maintaining a mood of continuous rhetorical mobilisation among his supporters against the upper caste minority. This is illustrated in quotes from Yadav's speeches, cited in Thakur:

'These people have oppressed and suffocated you for thousands of years, they have made you labour and they have kept the fruits for themselves.'...

'This government, this power, the state, this is all yours. You have been deprived of your share because those who ruled the state were not bothered about you ... But now your man has captured the establishment... "Burabal Hatao": wipe out the upper castes'. (2000: 85)

The word *Bhurabal* was one of Yadav's typical inventions, a crude acronym for the categories that made up the upper castes: Bhumihars, Rajputs, Brahmins and Lalas (Kayasthas) (Witsoe 2011: 78).

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<sup>89</sup> This electoral positioning was to some degree imposed on Yadav and his predecessors. The most consistent and coherent electoral competition that they had to face was a 'coalition of extremes' in the shape of a local Congress Party with strong support among both the upper castes and the STs (Robin 2009: 82-3). Yadav never received much support from the ST population, and was strengthened electorally when, at the division of the state in November 2000, all seats reserved for ST candidates were relocated to the new state of Jharkand.

### 6.3 State Incapacity by Design: The Logic

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As described above, one of the reasons for Yadav's extended dominance was that he used both rhetoric and policy to continuously maintain a mood of confrontation with the upper caste 'enemy', and so keep his electoral base mobilised. In this section, I discuss the six building blocks of this strategy by listing them as claims and subsequently elaborating on each.

An important component of Yadav's strategy of confrontation was to avoid appointing members of upper castes to much sought after government jobs (claim 1), even though they had the required educational qualifications (claim 2). New appointments were made and promotions given only if it was felt that members of the communities in the dominant electoral coalition would be the biggest beneficiaries. However, those groups were historically so deprived that often it was difficult to find members with sufficient educational qualifications (claim 3) who could be appointed to even middle-ranking public sector jobs. Attempts to favour supporters either by manipulating the selection process or by changing eligibility criteria without having the powers to do so were thwarted by an upper-caste judiciary and other institutions of oversight such as audit and media over which the state government had little control (claim 4). Thus, posts were often left vacant, despite the availability of funds to fill them (claim 5). Vacancies were more common at higher levels of the public service, where there were even fewer plausible candidates from historically excluded groups. The political leadership preferred to leave posts vacant, to send clear signals both to its own supporters ('this government is really serious about humbling the old elite') and to its upper caste opponents ('your era of dominance has ended').

Despite the strategy of selective appointments and promotions and a large number of vacancies, upper castes continued to hold a majority of posts in the Bihar bureaucracy. Therefore according to the tenets of Yadav's leadership, this upper-caste-dominated bureaucracy (claim 6) had to be constrained. Beyond appointments, the leadership resorted to exercising intense political oversight over the decisions of public servants, made possible in part by the aforementioned centralisation in decision-making procedures. Thus, they deprived public servants of the autonomy they needed to work effectively, and tied the whole system in proverbial 'red tape'. Upper caste elements in the bureaucracy fought back by refusing to take decisions and by running to a sympathetic judiciary with their grievances. The weakening of the public service that ensued was both a consequence of restrictive oversight and also directly sought after by the leadership. In effect, this weakening helped to maintain a mood of confrontation with the upper caste 'enemy'. Public services, particularly security and physical protection, could then be denied to all except those who had access to powerful RJD patrons. To a significant extent, a lack of public sector capacity and the insecurity of persons and property were therefore the result not of deep history, but of contemporary political strategy.

In the above explanation of Yadav's logic, I have made six claims:

- 1) The regime displayed an aversion to making new appointments despite the fact that government jobs were much sought after by the people of Bihar
- 2) There was no shortage of qualified people to appoint
- 3) It was difficult to find candidates from communities in the dominant electoral coalition who had sufficient educational qualifications
- 4) Institutions of oversight thwarted attempts to manipulate recruitment

- 5) Vacancies were not filled despite finances not being a constraint
- 6) The bureaucracy remained dominated by the upper castes

I will now discuss each of these claims and the evidence to support it.

### **6.3.1 An Aversion to Making Sought-After Appointments**

The people of Bihar are well known for their desire for government jobs. This was visible in their enthusiasm for jobs in the following agencies/departments/services:

- 1) The All India Services<sup>90</sup>: IAS, Indian Foreign Service (IFS) and Indian Police Service (IPS)
- 2) Public sector jobs in other states
- 3) The BAS and other positions in the Government of Bihar

#### **6.3.1.1 All India Services**

Members of the IAS, IFS and the IPS occupy almost all senior positions in state governments and in the Government of India. Recruitment to these and other services is through the Union Public Service Commission (UPSC). The annual all-India civil service examination organised by the UPSC has close to 300,000 applicants. The IAS recruits about 50 to 80 persons, the IPS about 100 to 150 and the IFS about 10 to 15. Competition is high and the recruitment process is credible. Close to 50 per cent of those selected to these three services in the last 15 years were from Bihar and Uttar Pradesh. As for the IAS, Bihar has for many years been the second largest supplier of new officers (Ashish Sinha 2010). This trend is corroborated by the head of the Asian Development Research Institute (ADRI) who said, 'In 10 years, either the DM or the

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<sup>90</sup> The IAS, IPS and IFS are called the 'All India Services' because they work for the central and state governments. All other services, like the Indian Foreign Service, Indian Railway Service, and Indian Revenue Service are central services because they only work for the Central Government.

SP<sup>91</sup>], if not both, in each of the 500-odd districts in the country will be a Bihari' (Jha 2005). In monetary terms, the private sector in India offers much more than a job in government, yet for the people of Bihar a job in government continues to be hugely prestigious. I will not go into the reasons for this, as my aim is only to show that government jobs in general and those with government in Bihar in particular were popular among Biharis.

### **6.3.1.2 Public Sector Jobs in Other States**

The prestige of a job in the public sector, few local opportunities and large number of qualified people has meant that people from Bihar respond in large numbers whenever there is public sector recruitment in any part of India. Local aspirants resent this. On occasion, they even resort to violence. An example is the attack against people from Bihar in October 2008 during recruitment to the Indian Railways in Mumbai (Press Trust of India 2008b). Similar, though less violent, protests occurred in Karnataka in January 2008 (Press Trust of India 2008c). During my fieldwork in Bihar, I found that families in Bihar prefer to have at least one member working in a government department rather than in a higher paying position in the private sector.

### **6.3.1.3 Bihar Administrative Service and Others**

In 2007, after a new government took office, the Bihar Public Service Commission invited applications for a number of positions after a five-year hiatus<sup>92</sup>. The openings were general recruitment to the BAS (deputy collector) and other positions such as Bihar Police Service (deputy superintendent of police), battalion commander (home guards), Bihar Finance Service (commercial tax officer), Bihar Education Service, Bihar

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<sup>91</sup> SP is short for superintendent of police, the police chief of a district.

<sup>92</sup> This was not applicable to the IAS whose recruitment is done by the UPSC in Delhi. Officers selected by the UPSC are allotted to state cadres by the Government of India.

Labour Service, Bihar Jail Service (jail superintendent), assistant exchange officer and assistant registrar in the Bihar Co-operative Service. Over 176,000 people took the preliminary written test and 19,318 were shortlisted for the main examination (Bihar Public Service Commission 2008). The response to recruitment of teachers was equally enthusiastic. In August 2008, when the Human Resources Department of the Government of Bihar invited applications for the appointment of 92,000 teachers (Press Trust of India 2008a), it received 4 million applications (Bihar Times 2008). Both these examples show that working for the Government of Bihar was an extremely popular career option.

### ***6.3.2 No Shortage of Qualified People***

It is usual for low-income countries and regions to face human resource shortages. Sub Saharan Africa, for example, is said to have a shortage of over 820,000 doctors, nurses and midwives. It is estimated that this will require 600 additional medical and nursing schools to train for two decades before this gap can be closed (Conway et al. 2007). India, however, with the world's third largest scientific community (Eisemon 1982) and an university system that is the largest outside North America (Eisemon and Davis 1992) is better equipped with trained professionals than other developing countries. As is well known, India has become a world leader in information technology and information technology-enabled services, with annual revenues of US\$ 64 billion in 2008 (Financial Express 2008). While this signals a comfortable human resource situation in India at large, it does not tell us anything about the situation in Bihar, one of the most backward states in the country. I therefore investigated two aspects of the human resource situation in Bihar to understand the availability of qualified public service candidates:

- 1) Educational attainment of the population
- 2) Employment rates among those with educational qualifications required for government jobs

### **6.3.2.1 Educational Attainment**

According to the NSS ‘... a person who could read and write a simple message in any language with understanding was considered a literate’ (National Sample Survey Organisation 2001a: 29). According to this definition, Bihar with 35 per cent rural and 61 per cent urban literacy was the least literate state in India as of 1999-2000 (National Sample Survey Organisation 2001a: 59 & 64). What this figure does not reveal is that in the literacy category from which most government recruitment takes place (i.e., educated to level secondary and above), Bihar—at 25 per cent for urban and 7 per cent for rural—was close to the national figure of 27 per cent for urban and 8 per cent for rural (National Sample Survey Organisation 2001a: 96 & 99). Therefore, Bihar did not seem to be at a disadvantage during the Yadav regime when compared with other Indian states in terms of availability of qualified personnel for government jobs. Furthermore, even if Bihar did have a shortage, it would have been possible to find eligible persons from other states to fill public positions, as India does not have restrictions on citizen’s travel and work. Enquiries during my fieldwork revealed that, until the 1960’s when there was a shortage of qualified persons to serve as engineers, nurses and even the IAS, local skill shortage was indeed overcome by recruiting from other parts of India.

### **6.3.2.2 Employment Rates**

The National Sample Survey Organisation (NSSO) of India regularly collects and publishes information on what they call ‘the education level specific worker population ratio’. This is the proportion of employed persons above the age of 15 (compared with the total number of persons) that fall into each of six educational categories: not literate;



literate and up to primary; middle; secondary; higher secondary; and graduate and above. In rural Bihar in 1999-2000, 41 per cent of persons who had higher secondary level qualifications and 25 per cent of those who had graduate or higher level qualification had no work. In urban Bihar, this figure rises to 72 per cent and 42 per cent, respectively. Compared to the all-India figure of 47 per cent for rural–higher secondary and 31 per cent for rural–graduate and above, as well as 60 per cent for urban–higher secondary and 40 per cent for urban–graduate and above, it can be said that availability of qualified persons in Bihar was similar to the national situation in rural areas and better in urban areas. See Table 6.2 below.

**Table 6.2 Education level specific worker-population ratio (1999-2000)**

|           | Rural            |                    | Urban            |                    |
|-----------|------------------|--------------------|------------------|--------------------|
|           | Higher Secondary | Graduate and above | Higher Secondary | Graduate and above |
| Bihar     | 59%              | 75%                | 28%              | 58%                |
| All India | 53%              | 69%                | 40%              | 60%                |

*Source: National Sample Survey Organisation (2001a: 96 & 99)*

Taken together, both education levels and employment rates indicate that Bihar did not face a human resource shortage during the time Yadav was in power.

### **6.3.3 Shortage of Qualified People from Yadav Supporters**

In Chapter 1, I described that when I was state director for the SSA in Bihar in 2004, the GOI was pressing hard for the recruitment of additional teachers, but the state government was reluctant. This attitude was surprising because the Central Government was picking up the salary bill of the new appointees. The Bihar government could have therefore taken credit for providing jobs without having to pay for it. When the pressure from the Delhi became too much, the State agreed to the scheme, but only after lowering the eligibility criteria for teachers without having the power to do so. The

courts soon stepped in and stopped this practice. Though the Bihar government filed an appeal with the Indian Supreme Court, all teacher recruitment in the state was stopped for many years (Sify 2010).

I investigated this apparently contradictory behaviour of the political leadership during my fieldwork. I found that the lack of enthusiasm was due to the perception that very few BC, SC and Muslims had the teacher-training qualification that was a prerequisite for recruitment according to national guidelines. This meant that if the Bihar government had gone ahead and recruited as per these national guidelines, it would have needed to recruit upper-caste teachers, thereby going against its political rhetoric. Teacher vacancies, money earmarked for education remaining unused and poor state capacity to provide quality education, were therefore the consequence of a straightforward political calculus.

During my fieldwork, I turned to data from the NSS on the educational status of BC and SC<sup>93</sup> to further explore this issue. My findings in Table 6.3 below show that BCs and SCs, the core supporters of the Yadav regime, were educationally disadvantaged compared to the upper castes. For example, as a proportion of their population, upper castes who had studied up to the graduate level were three times as many as BCs and six times as many as SCs. In the case of individuals who had completed higher secondary, the percentages were 39, 20 and 9 respectively for upper castes, BCs and SCs. This by itself is not conclusive proof, but it lends credibility to the claim that the ruling coalition found it difficult to find eligible candidates from communities that supported them for appointment to government jobs.

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<sup>93</sup> I could not differentiate for Muslims because the NSS does not have state-wise break down of educational attainment by religious group.

**Table 6.3 People educated to various levels in Bihar by social category (1999–2000)**

|                       | Rural Male |      |      | Rural Female |      |      | Urban Male |      |      | Urban Female |      |      |
|-----------------------|------------|------|------|--------------|------|------|------------|------|------|--------------|------|------|
|                       | HS         | Grad | NL   | HS           | Grad | NL   | HS         | Grad | NL   | HS           | Grad | NL   |
| Scheduled Caste       | 1.9        | 1.6  | 70   | 0.4          | 0.2  | 93.6 | 4.8        | 6    | 38.1 | 2            | 1    | 69.1 |
| Scheduled Tribe       | 1.5        | 2    | 54.5 | 0            | 0.1  | 82   | 6.2        | 16.5 | 25.5 | 4            | 10.9 | 48.2 |
| Backward Castes       | 3.7        | 2.8  | 48.6 | 0.5          | 0.2  | 80.6 | 11         | 14.3 | 22.6 | 5            | 3.8  | 54.5 |
| Upper Castes & Others | 8.2        | 9.3  | 27.8 | 2.1          | 1.1  | 58.4 | 17         | 33   | 10   | 12           | 15.2 | 27.4 |

HS: studied up to higher secondary; Grad: studied up to graduation; NL: not literate. *Source: National Sample Survey Organisation (2001b)*

#### **6.3.4 Oversight Institutions Thwarted Attempts to Manipulate Recruitment**

The president of India appoints judges to the states' High Courts after consulting with the chief justice of India, the governor of the state (who is appointed by the GOI), and, in the case of appointment of a judge other than the chief justice, the chief justice of the state's relevant High Court. Judges are usually chosen from amongst prominent lawyers who practise in the local High Court. Given Bihar's history of being dominated by upper castes, this meant that the bench was predominantly upper caste, and there was little that the State Government could do to influence judicial appointments or the court registry that decides which cases are placed before which bench.

Mandatory audits are also another oversight institution. Officials who audit government spending are drawn from the Indian Audit and Accounts Service (IAAS). Like the IAS, auditors are recruited by the UPSC, but unlike the IAS, their placement is determined by the CAG. Neither the state government nor the GOI has a role in their selection, career advancement or postings.

Finally, the media also served to hold the government accountable. Indian media is independent from state and Central Government control, and the government of a poor state such as Bihar spends very little on advertising. The commercial interest of the media is therefore centred around revenues from readership, viewership and commercial advertising. Given that illiteracy and poverty levels were high among supporters of Yadav's party, there was little incentive for the media to be sympathetic to the interests of the incumbent party. On the contrary, exposing instances of official wrongdoing made valuable copy.

The use of recruitment as a source of rent or to provide jobs to core supporters is a not an uncommon strategy in many Indian states, but for the Yadav regime this was difficult to do, for the reasons previously discussed. Additionally, an upper-caste bureaucracy and judiciary working alongside independent auditors and media thwarted the regime's attempts to bend the recruitment rules and worked to expose corruption.

For many years, except in the case of police constables, there were still no serious efforts to fill vacancies:

Civil service recruitment is another serious problem, with large imbalances across functional needs and levels. Important vacancies, such as positions for teachers and engineers, exist alongside serious overstaffing in the lower ranks. (World Bank 2005: 3-4)

Public sector recruitment in India is subject to elaborate rules and procedures. Any attempt to distribute jobs as patronage by a BC-dominated party would come under attack from an upper-caste dominated judiciary:

About 80 per cent of the judiciary belongs to the forward castes... It is reported that interests represented by the forward castes are reflected in judicial pronouncements, undermining the implementation of much socio-economic legislation. (World Bank 2005: 59)

For example, results from an exam held in 2003 to promote government staff as members of the BAS were declared after a two-year delay in 2005. Following a petition by some candidates, the High Court intervened, stayed the results and ordered a vigilance enquiry which resulted in the arrest of the chairman of the Bihar Public Service Commission (BPSC), another member and seven officials (Balchand 2005). In 2008, following a three year enquiry by the state vigilance department, the High Court concluded that the exams were not properly conducted and cancelled the results (2008).

Bihar therefore experienced a curious situation in which institutions of good governance while maintaining the rule of law, helped create perverse political incentives that had a detrimental effect on state capacity.

### ***6.3.5 Finances Were Not a Constraint***

I argue that finances were not a constraint to hiring government personnel by discussing the answers to two questions:

- 1) How did Bihar compare with other Indian states in terms of its budget deficit?
- 2) What was Bihar's policy when it came to recruiting staff for schemes whose staffing costs it did not have to bear?

Each question is elaborated below.

### 6.3.5.1 Budget Deficit

State governments in India face rising voter expectations, increasing staff costs and inadequate resources. Consequently, most states run up substantial budget deficits.

Persistent deficits indicate non-availability of spare cash that could otherwise have been used to hire new staff. At an all-India level, for the three years between 2003 and 2006, state governments in India had a total revenue deficit<sup>94</sup> (RD) of Rs. 1,096 billion. In terms of primary deficit (PD), this amounted to Rs. 677 billion (Reserve Bank of India 2008: 121). Bihar, however, was an exception. Bihar's average RD/GSDP and PD/GSDP ratios during this period were 0 and -0.8 respectively (zero indicates that there was neither a deficit or a surplus and the negative PD/GSDP ratio indicates that there was a surplus rather than deficit) (Reserve Bank of India 2008: 34). Bihar also had a substantial cash surplus with the Reserve Bank of India (RBI) (Business Standard Economy Bureau 2006; Patnaik and Sidhartha 2005) and rarely used the 'ways and means advances' and 'overdraft' facilities available to it from the RBI (Accountant General Bihar 2001, 2003; Principal Accountant General (Audit) Bihar 2004).

Annexure 5 has data on the ways and means advances of other states.

### 6.3.5.2 Recruiting History

Programmes like the ICDS and the SSA are CSS schemes in which additional staff costs were to be met from within each initiative's budget, almost all of which was funded by the Central Government. Yet, these schemes had a large number of staff

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<sup>94</sup> Conventional deficit represents the difference between aggregate disbursements and aggregate receipts. Aggregate receipts include: (i) revenue receipts; (ii) capital receipts excluding ways and means advances and overdraft from the RBI, and (iii) net receipts under the Public Account excluding withdrawals from the Cash Balance Investment Account and deposits with the RBI. Aggregate disbursements include: (i) revenue expenditure and (ii) capital disbursements excluding repayment of ways and means advances and overdraft from the RBI. Revenue deficit is the difference between revenue expenditure and revenue receipts. Gross fiscal deficit is the difference between aggregate disbursements net of debt repayments and recovery of loans and revenue receipts and non-debt capital receipts. Primary deficit is gross fiscal deficit less of interest payments. Ways and means advances and overdraft are facilities provided by the Reserve Bank to enable states to manage their cash flows.

vacancies. For example, in the ICDS, 85 per cent of supervisory and 21 per cent of CDPO positions were vacant (N. Nayak and Saxena 2006). Similarly, for the SSA, over 60,000 primary school teacher positions were vacant (Government of Bihar 2006; Times News Network 2006). A World Bank team looked into the question of finances being a constraint on public sector employment in Bihar and concluded that:

In some instances the state appears unable to raise institutional matching loans, and lacks adequate internal financing to meet counterpart financing requirements... However, this does not appear to be the binding constraint in most programs. These issues go beyond implementation problems affecting central assistance and schemes to deeper questions of basic administration, governance, institutions and capacity building. (World Bank 2005: 46)

Thus, the above analysis indicates that Bihar

- was in a better financial position (in terms of liquidity) than most other states
- had not filled vacant positions in schemes where additional staff costs were to be paid from central funds

It therefore appears that inadequacy of financial resources was not a likely reason for Bihar's failure to fill vacant positions.

### ***6.3.6 Bureaucracy Was Dominated by Upper Castes***

The following quote explains the reasons and consequences of upper-caste domination of the bureaucracy in Bihar:

There is, in fact, a fundamental tension between lower caste empowerment and state directed development. The key levels of the bureaucracy and the police have long been controlled by people from upper caste backgrounds in Bihar and this control served to reinforce the domination of upper caste landlords in the countryside... The political assertion of lower castes from the early 1990s resulted in a deep-seated conflict between a new lower caste

political leadership and a largely upper caste bureaucracy, police, and judiciary. This is why the politics of caste empowerment resulted in a general breakdown of public institutions in Bihar. (Witsoe 2007a: 1)

The idea of political neutrality is fundamental to the way civil service in India is organised. It is in the name of neutrality that civil servants receive special protection under the Indian Constitution<sup>95</sup>. The tension created whenever a new political elite comes into office and has to deal with a pre-existing civil service is not new in India. Soon after Indian independence for example, sceptics asked,

... would the members of the Indian Civil Service (ICS), who studied Shakespeare, played golf, wore British hats, and took orders from no one but their British superiors, now serve the khadi-clad Congress leaders sympathetic to the cause of the Indian downtrodden? (Kohli 1989: 62)

At that time, leaders like Sardar Vallabhai Patel<sup>96</sup> successfully argued that the civil service should continue in the interest of stability. Leaders of post-1990 Bihar led by Yadav and the RJD thought differently. Long after the euphoria generated by independence from a colonial power, they had to stay true to the political rhetoric that brought them to power:

Now the king is not born from the womb of queens. The kingdom now comes from your votes, from your majority... Previously the collector (District Magistrate) and the S.P (Superintendent of Police) were Mishraji, Tripathiji, Sinhaaji, Vermaji (all forward caste names), now they are Yadavji, Mahatoji, Saahji (all backward caste names). (P. K. Chaudhary and Shrikant 2001: 249-50; cited in Witsoe 2007b)

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<sup>95</sup> Article 311, clauses 1 and 2 of the Indian Constitution specifies that only the appointing authority can dismiss or remove a civil servant of the central or state government. In addition, no such person can be dismissed, removed, or reduced in rank, except after an inquiry in which he has been informed of the charges against him and given a reasonable opportunity to be heard with respect to those charges.

<sup>96</sup> Patel was Independent India's first home minister.



Finding enough BC officers who could be made district magistrates and superintendents of police was not easy because in India, all heads of departments in the state government have to be appointed from amongst members of the IAS. In the case of the police, they have to be from the IPS. Recruitment to the IAS and the IPS is by the UPSC and, though there is reservation for candidates from disadvantaged social groups, recruitment is largely perceived to be meritocratic, favouring the upper castes because of higher educational achievements.

The ruling party in Bihar therefore did what it could do. It redeployed civil servants so that only those who belonged to core support groups held key positions. There were limitations to this strategy because of a lack of human capital among backward communities and their poor representation in the civil and police services. For example in 2002, in the Bihar cadre of the IAS, out of a total of 244 officers only 39 were Muslim, Yadav or SC (Witsoe 2007b: 63). Table 6.4 has a detailed breakdown of these figures.

**Table 6.4 Caste in the Indian Administrative Service (Bihar Cadre) in 2002**

| Caste Category   | Total | From Bihar | Other State |
|--|-------|------------|-------------|
| Upper Castes<br>( <i>Brahmin (60), Kayasth (54), Bhumihar (7), Rajput (22)</i> ) | 143   | 108        | 35          |
| Scheduled Castes   | 25    | 8          | 17          |
| Scheduled Tribes   | 7     | 0          | 7           |

|  |     |    |    |
|--|-----|----|----|
| Backward Castes<br>(Bania (15), Yadav (4),<br>Kurmi (3), Jain (2),<br>Other Backwards (9)) | 33  | 15 | 19 |
| Muslim   | 10  | 9  | 1  |
| Christian  | 3   | 0  | 3  |
| Sikh   | 2   | 0  | 2  |
| Unidentified   | 21  |    |    |
| Total  | 244 |    |    |

*Source: Adapted from Witsoe (2007b: 54)*

In spite of this Chaudhary (1999) estimated that in 1995 out of a total 50 districts in Bihar at that time, 26 district magistrates and 30 deputy development commissioners' were from backward castes<sup>97</sup>. Where such deployment was not possible, posts were kept vacant and officers from adjoining areas or other departments supervised routine work.

Upper caste elements in the bureaucracy did not remain mute spectators. They fought back by abetting system collapse and passing the buck when required to take decisions. They drew succour from the fact that the judiciary was sympathetic to the idea that the state was being mal-administered for political gain. All of this had its obvious costs:

Bihar's poor economic performance... is comprehensible only in the larger context of a struggle for control of the state, a struggle pitting the elected political leadership belonging to the Other Backward Classes (OBCs) in the state government against officials in the bureaucracy and judiciary, both of which remained dominated by persons from upper caste backgrounds. At the state level, conflict between the political leadership and the bureaucracy perpetuated ingrained administrative inefficiency that marginalized development issues. Meanwhile, an activist judiciary immobilized the chief

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<sup>97</sup> The Chaudhary numbers refer to the period before Bihar's division, while the Witsoe numbers are for Bihar after division.

minister, Lalu Prasad Yadav... with enormous amounts of litigation against the state government, paralyzed administrative decision-making. (Frankel and Witsoe 2006: 2)

One significant instance that needs highlighting was the sensational criminal case against Yadav when he was the chief minister that came to be known as the ‘fodder scam’.

District level officials in the Bihar Animal Husbandry Department, with the connivance of officials in the state capital, had been withdrawing amounts from the district treasuries in excess of what was budgeted. They did this by submitting false bills for supply of fodder to ST beneficiaries in the tribal areas of the state. When detected, the prosecuting agency concluded that the chief minister was also a party. It merits mention that this fraud had been going on for many years before Yadav became chief minister. In fact, the Animal Husbandry Department was notorious in the state for its misuse of public funds, and was a source of rent for the ruling party over a number of years. Yet the arrest of the chief minister in the ‘fodder scam’ was sensational and had a dampening effect on decision making in government. Though Yadav resigned and went to jail, he made his wife the chief minister and continued to rule *in absentia* with the help of trusted civil servants. The manner in which the judiciary handled the case, particularly in granting bail to a former upper caste chief minister Dr. Jagannath Mishra (later cancelled), gave rise to slogans such as ‘jail for Yadav and bail for Mishra’. The haste with which law enforcement agencies egged on by the media, pursued the arrest of Yadav, even illegally seeking the help of the army, led many to believe that this was the establishment striking back (Roy 1997).

In concluding this section it can be said that Yadav gave credibility to his anti-elite rhetoric by refusing to recruit members of the upper castes into the public service, and by maintaining very close political control over administrative actions of officers already in service. The costs, knowingly incurred, were loss of administrative capacity and, indirectly, sacrifice of fiscal transfers from Delhi. It is this phenomenon that I have labelled ‘state incapacity by design’.

#### **6.4 Pockets of Productivity**

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Despite the detrimental consequences of his politics for state capacity, Yadav ensured that the state was able to deliver important (but selective) benefits to his core supporters. One core component of this political base—his own Yadav caste—benefited from a highly uneven pattern of cooperative development<sup>98</sup>. When Yadav first came to power, there existed in rural Bihar, as in most of India, a wide range of agricultural cooperatives. These were dominated by the main landowners, normally the upper castes. The new government set about systematically dismantling these cooperatives, first by suspending cooperative statutes and elections and putting the organisations under the direct control of appointed public servants. As registrar of cooperatives societies (regulator) from 2003–2004, I saw first hand how one section of the cooperative movement not only bucked this trend, but flourished: the dairy cooperatives. As a World Bank study notes:

The profitable Bihar State Cooperative Milk Producers’ Federation Ltd (COMFED) has been extraordinarily successful and has improved the lives

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<sup>98</sup> While Yadavs, other cultivating castes, Muslims and to a lesser extent Scheduled Castes were the main components of Yadav’s electoral coalition, the Yadavs were central to the patron-client network. They, to a large degree, controlled access to the public service; enjoyed special privileges within the public service; and seemed to have a license to engage in kidnappings for ransom not enjoyed by other groups.

of many thousands of families... COMFED's success points to the critical importance of professional management that is free from political interference. (World Bank 2005: 5)

Not surprisingly, Yadavs are traditionally associated with dairying.

Similarly, selective practices within the sphere of policing and security were directed at retaining Muslim votes. Muslims in India have for several decades been vulnerable to inter-communal violence (Sengupta 2005; Wilkinson 2002). The Minorities Commission of India calculated that, in the communal riots that took place between 1985 and 1987, 60 per cent of the people killed were Muslim, and Muslims suffered 73 per cent of reported property damage (Sengupta 2005). Before Yadav became its chief minister, Bihar experienced many such incidents, including the Bhagalpur riots in October 1989. To preserve his Muslim support, Yadav ensured that this situation changed, and Bihar became something of a haven against inter-communal riots. In 1992, when the struggle that led to the destruction of the Ayodhya mosque was accompanied by communal riots all over India, Bihar was an island of peace. This reflected a clear political decision:

Lalu Yadav, when asked why Bihar had been so quiet despite its woeful record of past riots, explained how his government had arrested returning militants from Uttar Pradesh (the site of Ayodhya) before they could reach their towns and villages, and how he had threatened all district magistrates and station house officers with the loss of their jobs if they allowed any riots to break out in their town. 'The political will of the state government' he said, 'was clear'. (Wilkinson 2006: 86)

It was not that the police in Bihar were generally effective. The state remained relatively lawless, and the business of kidnapping for ransom thrived. Kidnapping was inevitably aimed mainly at the higher castes, and was believed to receive high-level political

support and protection, if not direct sponsorship. The Bihar government did not generally exercise discipline over the police, but retained control sufficient to ensure that the service could be used for politically crucial tasks. When the government changed in 2005, the crime rate in the state began to decline substantially, above all the kidnapping rate. This is described in more detail in Section 6 below.

### 6.5 State Incapacity by Design: Electorate Arithmetic

As we have seen, Bihar has a long history of economic, social and political power being in the hands of the upper castes. Although there were changes for short periods when non-Congress<sup>99</sup>, non-upper caste leaders became chief ministers, it was not until Yadav became chief minister in 1990 that real change began to occur. One of the paradoxes of Indian democracy (as in Bihar) was the dominance of upper castes over a majority non-upper caste electorate for whom caste was a dominant factor in determining voting behaviour. Table 6.5 below shows the distribution of households by social group for 16 major states<sup>100</sup>.

**Table 6.5 Distribution of households by social group for major states (30 June 2002)**

| Rural + Urban |                  |     |     |     |       |          |
|---------------|------------------|-----|-----|-----|-------|----------|
| Sl. No        | State            | %ST | %SC | %UC | % OBC | OBC rank |
| 1             | Andhra Pradesh   | 6   | 21  | 27  | 46    | 5        |
| 2             | Assam            | 10  | 11  | 56  | 23    | 13       |
| 3             | Bihar            | 1   | 21  | 20  | 58    | 2        |
| 4             | Gujarat          | 15  | 11  | 38  | 36    | 8        |
| 5             | Haryana          | 1   | 24  | 42  | 33    | 10       |
| 6             | Himachal Pradesh | 7   | 23  | 52  | 18    | 14       |

<sup>99</sup> The Indian National Congress Party is the biggest political party in India in terms of membership. The party's modern liberal platform is largely considered to be center-left. It was founded in 1885 and became the leader of the Indian Independence Movement.

<sup>100</sup> Data from these states were used in the quantitative analysis in Chapter 5.

|   |                                 |    |    |    |    |    |
|---|---------------------------------|----|----|----|----|----|
| 7   | Karnataka                       | 5  | 18 | 44 | 33 | 10 |
| 8   | Kerala                          | 1  | 11 | 35 | 53 | 3  |
| 9   | Madhya Pradesh                  | 16 | 17 | 26 | 41 | 7  |
| 10  | Maharashtra                     | 9  | 14 | 49 | 28 | 12 |
| 11  | Orissa                          | 25 | 20 | 19 | 36 | 8  |
| 12  | Punjab                          | 1  | 36 | 48 | 16 | 15 |
| 13  | Rajasthan                       | 15 | 18 | 25 | 42 | 6  |
| 14  | Tamil Nadu                      | 1  | 20 | 5  | 73 | 1  |
| 15  | Uttar Pradesh                   | 1  | 25 | 24 | 50 | 4  |
| 16  | West Bengal                     | 5  | 29 | 61 | 5  | 16 |
|   | All-India (All States and UT's) | 8  | 20 | 33 | 39 |    |
| <i>ST – Scheduled Tribe, SC – Scheduled Caste, UC – Upper Caste, OBC – Other Backward Classes</i> |                                 |    |    |    |    |    |

*Calculated using data from National Sample Survey Organisation (2003: 42) and Registrar General & Census Commissioner of India (2006: 55-56)*

Of particular interest in Table 6.5 is the share of Other Backward Classes (OBCs)—a constitutional category of middling castes distinct from SCs and STs and consisting of among others, caste groups who formed Yadav's core electoral base. In 11 out of 16 states, they were more than 30 per cent of the population. Tamil Nadu had the highest share with 73 per cent and Bihar, Kerala, Uttar Pradesh and Andhra Pradesh had more than 45 per cent.

One of the significant transformations of politics in India has been the rise in political power of OBCs, what Yadav called a 'second democratic upsurge' (1996: 96). While states like Kerala and Tamil Nadu took an early lead, Uttar Pradesh and Bihar were late starters<sup>101</sup>. In Bihar, although the OBCs' share in the population was 58 per cent, they had to wait until 1990 to achieve political dominance. In 1984, the percentage of MPs who were OBCs was less than 20 per cent; by 1991 this had risen to 37 per cent. The share of MLAs who were OBCs rose from one third in 1985 to a little less than half by 1995 (Jaffrelot 2003). The growth in influence of OBCs is also evident from their

<sup>101</sup> Caste categories are to some degree arbitrary. The underlying story is the rise to power of numerous rural, cultivating castes.

numbers in the state cabinet. From 38 per cent when Karpoori Thakur<sup>102</sup> was chief minister, the share of OBCs increased to 47 per cent in 1994 when Yadav was chief minister (Jaffrelot 2003). The following passage with quotes from Yadav gives a flavour of the changes:

[He said] ‘The forward castes used to rule Bihar. I have finished them off.’... [Yadav] then pointed to various forward caste leaders in the room... and named them by caste, ‘Brahmin, Bhumihar, Rajput...’ The implication was clear; they now served him... ‘Now look at what a tall chair I am sitting in (the chief minister’s chair)! I have proven that ballot boxes are more powerful than machine guns. Votes can decide whether a man will be in the dust or riding in an airplane. I am a true Naxalite (militant, communist revolutionary), from birth, a democratic naxalite’... (Witsoe 2011: 77)

Rhetoric is one thing. Making it electorally viable is what differentiates successful political entrepreneurs from the also-rans. There were three discernable elements to Yadav’s electoral strategy during the period, elaborated below:

- *Managing expectations:* managing the tension inherent in his political strategy by making only very sparing promises about the material benefits that he would bring.
- *Reincarnating the client as patron:* creating a new elite from amongst the Backward Castes, Scheduled Castes and Muslims; his core voters.
- *Electoral arithmetic:* the dominant party’s ability to win elections with less than one third of the votes polled. Yadav could achieve this by securing the votes of less than 50 per cent of his supporters.

### **6.5.1 Managing Expectations**

A corner stone of Yadav’s ability to win elections despite his governance track record had to do with his success in managing the tension inherent in his political strategy. The

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<sup>102</sup> Thakur was the first non-upper caste, non-congress chief minister of Bihar after Indian independence.



inherent tension was that, by consistently undermining the capacity of the state apparatus under his control, he limited his ability to deliver what would elsewhere in India be considered normal developmental goods. As a chief minister in a federal system in which power is weighted toward the Central Government, Yadav had limited capacity to alter the rules of the game. Delhi could at any moment have dismissed him and imposed president's rule on the state. His decision to subordinate concerns about the organisational capacity of the Bihar government to his political strategy left him with a problem: he could not credibly promise to deliver development outcomes on a broad scale to much of the electorate in the long term.

Yadav solved this problem in part by promising and delivering only select benefits, and in part by breaking with tradition in Indian politics and not vigorously promising broad 'development'. For example, if during his many trips to villages, he was asked to provide better roads, he would tend to question whether roads were really of much benefit to ordinary villagers, and suggest that the real beneficiaries would be contractors and the wealthy, powerful people who had cars. He typically required a large escort of senior public officials on these visits, and would require them to line up dutifully and humbly while he himself was doing his best to behave like a villager. He might gesture at this line-up and ask 'Do you really want a road so that people like this can speed through your village in their big cars?' Yadav was not trying to fool most of his voters most of the time. He was offering them other tangible benefits: *izzat* and the end of local socio-political tyrannies. But the strategies he used to deliver those benefits limited his ability to deliver on development in a more material sense.

*Izzat* as a political strategy had two parts:

- 1) Preventing communal riots that badly affected his Muslim supporters
- 2) Ensuring that local officials treated members of castes groups that were core supporters with respect

I explain both of these strategic elements in more detail below.

#### **6.5.1.1 Preventing Communal Riots**

One of the most important agenda items for Muslims in India is the prevention of communal conflict. Consequently, an important objective of the ruling party that depended on Muslim votes for its political survival was to prevent communal conflict. The Bihar government led by Yadav was very effective in this respect.

In October 1989, a congress government was in power in Bihar, and I was joint secretary in the department of agriculture in Patna when riots broke out in Bhagalpur district. The Bihar government deputed me from my posting in Patna to work with the divisional commissioner<sup>103</sup> of Bhagalpur to control the violence. In 1992, during Yadav's tenure, I was district magistrate in Palamau, Bihar. This enabled me to experience the difference in approach between two incumbent parties in dealing with communally-charged situations.

The message of the state government under Yadav and the RJD was clear and effective and everyone understood his determination. However the approach to preventing communal violence was in direct contrast to the leadership's approach to controlling crime. The crime situation was so bad that,

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<sup>103</sup> A divisional commissioner is the head of a division and has a number of districts under him/her.

... annoyed at the rising crime graph and jailbirds having a free run from behind the bars, the Patna high court on Tuesday observed that the situation appeared to have gone beyond control. A division bench comprising acting Chief Justice Nagendra Roy and Justice S N Hussain made the observation when Inspector General of Police (Prisons) Deepak Kumar Singh told the court that efforts were being made to curb criminals from running their gangs using mobile phones from jails. (Press Trust of India 2004)

As previously described, kidnapping for ransom was a thriving industry during this same period:

Kidnapping for ransom is Bihar's biggest and, these days, only industry. Between 1992 and 2001 ... local police recorded 24,338 cases of kidnapping in the state, an average of more than six a day. Officers admit the real figure may be 10 times higher than that... some politicians may be getting in on the kidnap game. Superintendent Shoba Ohatker, who has busted more kidnap gangs than any other officer, says that in her three years on the job, she has arrested suspected kidnappers hiding in the homes of local politicians four times. (Perry 2003)

The state government and police machinery that was so successful in preventing communal violence looked the other way when it came to kidnapping. Such selective use of government capacity was a core part of the administration's response to the political realities of the state: the electoral promise to overthrow upper-caste hegemony, including upper caste-hegemony over crime. One way to change the balance of crime was by having one of the lowest police-to-population ratios in the country: Bihar had 85 police per 100,000 citizens, while the national average was 136. This meant that Bihar's police force, which in 2000 had a strength of 87,000, needed to recruit another 50,000 officers to reach the national average (BBC News 2000).

In spite of this, there was nothing extraordinary about crime figures from Bihar:

Bihar has earned a reputation as a lawless and dangerously violent state. Upon closer examination, however, overall crime rates in Bihar do not look

very different from other parts of north India which also have high crime rates. (Frankel and Witsoe 2006: 31)

I observed that this clamour about increased crime was, among other factors, caused by the change in the nature of people who suffered its consequences: the old elite became the new victim. As described by the World Bank,

Although official statistics suggest that Bihar's crime rates are similar to many other states, the general perception of widespread lawlessness and organized crime is quite different. Thus Bihar has the reputation of being a high-risk state, where extortion and crime is directed towards businesses and professionals. (World Bank 2005: 4)

Thus, the numbers remained unchanged but the perpetrators and victims had switched places:

Upper caste mafia groups have a long history in Bihar. Paralleling the political empowerment of lower caste groups, over the last fifteen years OBC mafia-politicians have emerged to assert the new dominance of backward caste groups in crime syndicates as well. (Frankel and Witsoe 2006: 32)

Crime in Bihar therefore had a political purpose. Given the lack of human capital amongst their core supporters and the actions of an alert judiciary, the ruling party was unable to open the doors of government employment to its supporters. They therefore resorted to letting them dominate crime while denying this to others:

Between 1992 and 2005, criminal groups carried out a reported 30,000 kidnappings for ransom in Bihar...There is also a widespread belief throughout India that criminal figures are being protected by politicians in Bihar. After the imposition of president's rule in March 2005, 12,000 absconding criminals were arrested within a twelve-day period including 'at least 500 who were feared gangsters.' Bihar's Director General of Police, Narain Mishra commented, 'Now criminals know that nobody can save them. Under president's rule they have lost their patrons.' The fact that

crime in Bihar has disproportionately targeted a better-off urban population, and the perception that politicians, including many of those who were in the ruling government... (Frankel and Witsoe 2006: 31)

Achieving this duality and social engineering—changing the social composition of victims and beneficiaries and preventing riots while failing with general crime—was a masterstroke in both administrative and political terms.

#### **6.5.1.2 Ensuring that Local Officials Treat Supporters with Respect**

One of the platforms on which the new political elite mobilised support was the notion of *izzat*, or self-respect:

A significant transition in the perception of the poor peasants and agricultural labourers with regard to their needs and aspirations was also noticed in the villages ... Although even today they are struggling to earn enough to be able to provide for two square, meals a day, their concerns are not limited only to economic needs. The question of ‘*izzat*’ (respect) and political rights have become very important in their perception. (Sharma 2005: 969)

The success of Yadav’s electoral strategy was largely made possible because he was able to give marginalized groups who lacked both human capital and physical assets a voice. Prabhat P. Ghosh, director of the ADRI in Patna states that

In some areas of Bihar, if you carry a Yadav surname, that itself is a protection for you. People will presume that you have got connections and that you can approach political parties. This was the exact opposite 15 to 20 years ago when a Brahmin surname guaranteed a certain stature to you. (Bhagat 2004)

So much was the emphasis on respect during the first term of Yadav’s government, a popular Janata Dal (later RJD) slogan was ‘*vikaas nahiñ, samaan chahiye*’ (we need dignity, not development) (Frankel and Witsoe 2006). Yadav declared,

‘Yahan caste par vote hota hai, vikas par nahin’ (people vote on caste lines, not on development). ‘It is all about power. They (the upper castes) want to capture power again but hamara log power chhorna nahin chahte hain’ (my people are not prepared to give up power). (Chatterjee 2005)

In Chapter 3, I described the extent of social exploitation that BCs have historically experienced in Bihar. That the ruling party was able to give them izzat in spite of being unable to do much about the caste composition of senior civil, police and judicial officers, was a matter of great skill and administrative acumen that few realise or acknowledge. Frankel and Witsoe describe how

The social respect traditionally paid to upper caste villagers had ceased, as had the degrading acts of subordination that many lower caste villagers had been forced to endure. Lalu’s rise to political power offered lower caste villagers a sense of social—even familial—ownership in the state... One petty cultivator, when asked why he votes for the RJD, pointed to his house and replied, ‘I vote for my own family; why would someone from another house help me?’ Lower caste RJD supporters experienced a sense of democratic empowerment with Lalu at the helm of the state; they felt that it was ‘their’ government. This represented a dramatic change from earlier governments, considered at best a benevolent patron (maañ-baap) by the poor, and at worst an institution reinforcing their oppression. (Frankel and Witsoe 2006: 22)

Whatever its other failings the Yadav regime therefore had succeeded in convincing their core supporters that their government had given them something of great value—izzat.

### **6.5.2 Reincarnating the Client as Patron**

The backbone of Yadav’s strategy was the creation of a new elite from amongst caste groups that were core supporters of the RJD. There were two elements to this strategy:

- 1) Choke the flow of state resources to upper castes

- 2) Ensure that core supporters received preferential treatment in the award of government contracts and when acting as intermediaries on behalf of others.

The overarching strategy that accomplished this turnaround was to ensure that citizens had access to public services and state resources not as entitlements but as clients via patrons who had privileged access to the state. This brought about a radical shift in power relations in the rural and urban areas. In the past, upper-caste politicians and their political fixers<sup>104</sup> played the role of patron. Following the emergence of a new set of public representatives in the 1990s, the RJD ensured that a new set of political fixers (and local party workers) emerged from castes and communities who were their core supporters. They took on the new role of power brokers in citizen-state interactions.

#### **6.5.2.1 Choke the Flow of State Resources to the Upper Castes**

A feature of the mobilisation strategy of ‘aggressive social justice’ employed by the RJD was that it had to not only benefit its core supporters, it had to also deny benefits to upper castes. State incapacity by design was one way this was achieved. It ensured that citizens were unable to access services and state resources as entitlements. The only way citizens could get these resources was by using the services of a patron who had access to the state. These patrons were either MLAs or BC politicians who could reach the chief minister or the chief minister’s secretariat. This was one of the reasons behind concentrating administrative powers with a few key officials, as discussed earlier.

#### **6.5.2.2 Ensure that Core Supporters Received Preferential Treatment**

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<sup>104</sup> Manor (2000: 819) argues that fixers ‘bring three important things to the political process — knowledge, skills and attitudes. They know the problems faced by people at the bottom; they are skilful in manipulating the system to benefit their clients and themselves; they are pluralistic in their attitude, always willing to help irrespective of ideology or rank. As a result, they are useful to those both members of the public and officials.

The RJD was a party without an established cadre of workers. One way in which it built up its local leadership was by ensuring that its members received small but lucrative contracts for public works funded from CSS resources. According to the guidelines for these schemes, there was a ban on the use of contractors. Public works were to be executed by departmental engineers, other departmental staff or groups of beneficiaries. This was not possible because of the huge shortage of engineers and departmental staff. Local officers under pressure to finish work turned to petty contractors who would not figure anywhere in the records but would be given money to organise construction. These petty contractors were invariably local party functionaries or their agents.

Vacancies therefore fitted a political purpose. It was a delicate balance. On the one hand, there was a lack of confidence that CSS schemes would benefit core supporters. On the other, they had to ensure that local supporters got enough contracts to retain their loyalty. With the emergence of a new political elite, only those from BCs, SCs or Muslims could get anything done in government. This was true whether it was getting birth certificates from the municipal office, treatment in a government hospital or a permit to run a bus service. This pattern transformed yesterday's clients into today's patrons, a role reversal that was at the heart of the ruling party's social engineering and electoral strategy.

### **6.5.3 Electoral Arithmetic**

In elections to the state legislative assembly held in 1990, 1995 and 2000 (when Yadav and his wife became chief minister one after the other), the RJD came to power<sup>105</sup> and remained in office by securing 26 per cent, 28 per cent and 28 per cent respectively of

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<sup>105</sup> The share of the dominant party in Bihar in the 2004 Lok Sabha elections was 31 per cent.



the votes polled<sup>106</sup> (Election Commission of India 1990, 1995, 2000). They also required support from other political parties some of whom joined the government, but in terms of a winning electoral strategy the ruling party's target was a vote share of a third of the votes polled. It seems that it was possible for Yadav's party to achieve this vote share by servicing the needs of only their core support groups. Given the social and economic oppression these castes and communities traditionally experienced at the hands of the upper castes, Yadav was able to demonstrate his commitment by demonstrating an anti-upper caste bias and a policy framework that delivered material benefits without a high functioning state.

Chandra explains that an electoral strategy based on ethnic mobilisation is viable because 'voters expect co-ethnic elites to favour them in the distribution of benefits, and elites expect co-ethnic voters to favour them in the distribution of votes' (2004: 47). She treats voters as strategic actors who value what the state has to offer. Casting ballots depends on voters' estimation of what they can get from a prospective candidate. Party leaders seek to mobilise enough votes to come to power. In this game, the critical constraints are the ability of political parties and their candidates to make credible promises and of voters to judge the non-ethnic details of past performance. For example, whether past beneficiaries were rich or poor, urban or rural. This problem is more acute with promises to implement policies. Caste-based promises and presence of persons from similar castes in important posts within a party sends credible signals to ethnic voters because they are tangible and verifiable demonstrations of its commitment.

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<sup>106</sup> In the February 2005 elections, the RJD's vote share fell to 25 per cent and by October 2005, it had further reduced to 23 per cent. On both occasions, the RJD was unable to form a government.

The following quote from a Centre for the Study of Developing Societies (CSDS) study is indicative of the success that Yadav and the RJD were able to achieve via this strategy of ethnic mobilisation:

... Laloo Yadav may have lost his popularity... but it is also important to note that he still seems to be popular among the yadavs, the Muslims, the dalits and the poor people in the state... these are the social communities who have voted for the RJD in large numbers during most of the elections held in the state during the past decade. (Kumar 2005: 192)

Three points here are noteworthy: 1) the core voters of the RJD were from Backward Caste, Muslim and Dalit (Scheduled Caste) communities; 2) by 2000, Yadav's popularity had decreased; 3) in spite of losing overall popularity, Yadav continued to be popular among his hard core Muslim and Yadav (MY) supporters. In terms of signalling commitment to core voters, this meant rewarding Muslims, BCs (particularly Yadav's) and Dalits. Of these Muslim, Yadav and Dalits alone constituted 15 per cent, 7 per cent and 14 per cent of the population respectively (Kohli 1990: 208). See Table 6.6 below for details of the share of different social groups over the years. Together, these three caste/religious groups constituted 36 per cent of the population. Considering that 30 per cent was the targeted vote share, Lalu Prasad Yadav could make these three communities the focus of his politics. At this point it is important to mention that such a minimalist strategy was possible only because India has a FPTP electoral system, where candidates do not need an absolute majority to win an election.

**Table 6.6 Share of different caste groups in Bihar beginning in 1931**

| Sl. No | Social Group          | 1931 | 1981-83 | 2002 <sup>107</sup> |
|--------|-----------------------|------|---------|---------------------|
| 1.     | Upper Castes          | 13   | 15      | 20                  |
| 2.     | Other Backward Castes | 50   | 48      | 58                  |
| 3.     | Scheduled Castes      | 14   | 14      | 21                  |
| 4.     | Scheduled Tribes      | N.A  | 8       | 1                   |
| 5.     | Muslim                | 13   | 15      | 14 <sup>108</sup>   |

Sources: For 1931, Census 1931 cited in Frankel and Witsoe (2006); for 1981-83, Kholi (1990); for 2002, National Sample Survey Organisation (2003)

Table 6.7 has details from a CSDS poll on the supply of civic amenities in Bihar. The poll was conducted in 2004 prior to the elections that brought down the Yadav regime.

**Table 6.7 Condition of the supply of civic amenities in 2004 (%)**

| Civic issues                     | Deteriorated<br>% | Improved<br>% | Same as<br>before % | No opinion<br>% | Total % |
|----------------------------------|-------------------|---------------|---------------------|-----------------|---------|
| Condition of roads               | 54                | 24            | 18                  | 4               | 100     |
| Medical facilities               | 54                | 11            | 28                  | 7               | 100     |
| Supply of electricity            | 54                | 11            | 24                  | 11              | 100     |
| Security of life and<br>property | 41                | 26            | 25                  | 8               | 100     |
| Supply of drinking<br>water      | 33                | 23            | 27                  | 17              | 100     |

Source: (NES 2004, CSDS Data Unit cited in Kumar 2005).

<sup>107</sup> The 2002 numbers are substantially different from the other two time periods because the predominantly ST areas of Bihar were taken out in 2000 to create a new state of Jharkhand.

<sup>108</sup> Source: National Sample Survey Organisation (2007)

The above table shows that, in keeping with the general opinion about Bihar, over 50 per cent of respondents held the opinion that the conditions of roads, medical facilities and electricity had deteriorated. However, if you add the figures together, you find that the proportion of people who thought that the conditions had improved *or* had remained the same were:

- 40 per cent for roads
- 39 per cent for medical facilities
- 35 per cent for supply of electricity
- 51 per cent for security of life and property
- 50 per cent for supply of drinking water

What this reveals is that an electorally adequate number thought that conditions had improved or remained the same, despite the majority being unhappy with roads, health care and electricity. We do not know the caste composition of the respondents to this survey, but one way this result could have been achieved was by targeting state resources to core supporters despite an all-round decline in state capacity to claim and use central grants. Though it is not conclusive proof, the caste-wise voting pattern in the 1999 general elections as shown in Table 6.8 is indicative of such a pattern.

**Table 6.8 Caste and Community of RJD–Congress (I) and the BJP–JD(U) voters in Bihar %, 1999 General Election**

| Caste              | RJD–Cong (I) | BJP–JD (U) |
|--------------------|--------------|------------|
| Rajput             | 8%           | 92%        |
| Other Upper Castes | 13%          | 86%        |
| Kurmi-Koeri        | 19%          | 79%        |
| Yadav              | 79%          | 20%        |

|                  |     |     |
|------------------|-----|-----|
| Lower OBC        | 27% | 55% |
| Scheduled Castes | 49% | 43% |
| Muslims          | 79% | 19% |

*Source: (CSDS Team 1999)*

The above table indicates that, in the 1999 elections to the Indian parliament 79, 49 and 79 per cent respectively of Yadav, SC and Muslim voters endorsed the coalition consisting of the RJD and Congress (I). Using population shares of each of these three castes<sup>109</sup> (i.e., Yadav, SCs and Muslims it is possible to do a quick calculation that the combined support base of the RJD–Congress (I) ticket was 24 per cent from just these three castes and communities. Yadav needed a vote share of around 30 per cent to win elections. A secure vote share of 24 per cent meant that the neglect of other communities was a viable electoral strategy for him and the RJD.

## **6.6 Nitish Kumar's Bihar**

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Yadav's ability to mobilise electoral support based on an 'upper caste as enemy' mentality was not infinite. His competitors, led by Nitish Kumar<sup>110</sup>, a former associate and party member, mobilised votes from two under-represented groups: the non-Yadav BCs, the numerous Extremely Backward Castes, victims of his politics i.e. the upper castes and sections of the SC community. In November 2005, Kumar became chief minister and quickly gained a reputation for effectiveness and for achieving development outcomes.

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<sup>109</sup> Caste wise population shares are detailed in Chapter 3.

<sup>110</sup> Nitish Kumar was railway minister in Delhi from 2001 to 2004. Yadav succeeded him in 2004 and remained in office until 2009.

The inclusive nature of the new coalition's caste composition opened up new possibilities by dramatically changing political incentives. The leadership under Kumar promised to control crime, bring development and protect the interests of BCs, Muslims, SCs and upper castes. This changed the political economy and had a dramatic impact on many aspects of Bihar's administrative capacity.

Bihar today has one of the highest GSDP growth rates in India, government development spending has increased substantially, crime (particularly kidnapping for ransom) has fallen dramatically and the chief minister is now the toast of the media. During elections to the State Legislative Assembly held in November 2010, the coalition led by Kumar secured a four-fifths majority, winning 206 of 243 seats.

Most importantly from the perspective of this thesis, Bihar began to claim and use substantially higher amounts of centre–state fiscal transfers after Yadav's departure (Table 6.9 below has data on plan size and percentage expenditure). Since 2006/7, there has been a substantial increase both in the size of Bihar's annual plan and in its utilisation. Both as secretary of finance and principal secretary of rural development, I have been associated with plan expenditure in Bihar during the later part of Nitish Kumar's stewardship. The change from Yadav's rule was dramatic. During the 1990–2005 period, years would go by before the chief minister took departmental or district reviews. Whereas the 2005–2010 period was known for consistent follow up and attention to detail on all aspects of development spending.

**Table 6.9 Bihar plan expenditure (Rs. crores)**

| Year    | Approved Plan | Expenditure | % Expenditure |
|---------|---------------|-------------|---------------|
| 1997-98 | 2268.42       | 1663.87     | 73.35         |
| 1998-99 | 3768.74       | 2583.96     | 68.56         |
| 1999-00 | 3630.00       | 2695.68     | 74.26         |
| 2000-01 | 3155.00       | 1638.22     | 51.92         |
| 2001-02 | 2644.00       | 1471.40     | 55.65         |
| 2002-03 | 2964.40       | 2206.61     | 74.44         |
| 2003-04 | 3320.00       | 2627.03     | 79.13         |
| 2004-05 | 4000.00       | 3196.47     | 79.91         |
| 2005-06 | 5356.28       | 4465.50     | 83.37         |
| 2006-07 | 8250.00       | 8456.76     | 102.51        |
| 2007-08 | 10200.00      | 9700.25     | 95.10         |
| 2008-09 | 13500.00      | 12514.33    | 92.70         |

*Source: Government of Bihar Finance Department*

For the period between 2005/6 and 2007/8, Bihar at 10.5 per cent grew faster than the national average of 9.4 per cent. Bihar's performance was second only to Haryana at 11.0 per cent (see details in Table 6.10).

**Table 6.10 Per cent average real growth rates of Indian states (GSDP % at constant prices as of 26 June 2009)**

| States         |      |
|----------------|------|
| Bihar          | 10.5 |
| Jharkhand      | 7.9  |
| Assam          | 6.0  |
| Madhya Pradesh | 10.2 |
| Chhattisgarh   | 5.5  |

|                  |            |
|------------------|------------|
| Rajasthan        | 7.2        |
| Orissa           | 8.1        |
| Uttar Pradesh    | 6.5        |
| Uttaranchal      | 8.4        |
| Gujarat          | 10.2       |
| Haryana          | 11.0       |
| Himachal Pradesh | 8.8        |
| Karnataka        | 7.2        |
| Kerala           | 9.7        |
| Andhra Pradesh   | 9.4        |
| Maharashtra      | 9.6        |
| Punjab           | 6.1        |
| Tamil Nadu       | 9.2        |
| West Bengal      | 7.4        |
| <b>ALL INDIA</b> | <b>9.4</b> |

*Source: Planning Commission of India (2009)*

Table 6.11 below has data on crime in Bihar. Since 2005, there has been a steady decline in all years for all types of crimes (except for murders in 2008), with the most dramatic fall in kidnapping for ransom. This is significant because of the reputation Bihar had gained as the ‘kidnapping capital’ of India (Tewary 2005).

**Table 6.11 Bihar Crime Record 2001-2009 (September)**

| Year        | Murder | Dacoity | Robbery | Kidnapping<br>for Ransom | Road<br>Robbery |
|-------------|--------|---------|---------|--------------------------|-----------------|
| <b>2001</b> | 3619   | 1293    | 2175    | 385                      | 1296            |
| <b>2002</b> | 3634   | 1259    | 2236    | 396                      | 1323            |



|                                 |      |      |      |     |      |
|---------------------------------|------|------|------|-----|------|
| <b>2003</b>                     | 3652 | 1203 | 2425 | 335 | 1430 |
| <b>2004</b>                     | 3861 | 1297 | 2909 | 411 | 1875 |
| <b>2005</b>                     | 3423 | 1191 | 2379 | 251 | 1310 |
| <b>2006</b>                     | 3225 | 967  | 2138 | 194 | 1251 |
| <b>2007</b>                     | 2963 | 646  | 1729 | 89  | 1109 |
| <b>2008</b>                     | 3029 | 640  | 1536 | 66  | 897  |
| <b>2009</b><br>(till September) | 2438 | 505  | 1253 | 62  | 720  |

Source: Government of Bihar (2009)

Given Bihar's recent success with economic growth, public expenditure and crime control, it was not surprising that within two months of assuming office, Nitish Kumar was voted 'best Indian chief minister'<sup>111</sup> in a CNN-IBN poll<sup>112</sup> conducted by the CSDS. Over three and a half years later, in August 2009, the business daily *Economic Times* chose him as the 'Business Reformer of the Year'<sup>113</sup>.

It is interesting that Yadav and Kumar have much in common. Both came into state/national politics through the student union and the JP movement<sup>114</sup>. In 1973, the Patna Engineering College Students' Union elected Kumar as its president. The same

<sup>111</sup> 78 per cent of those polled felt that Kumar was the best Indian chief minister at the time.

<sup>112</sup> The findings of the IBN-HT poll are based on the State of the Nation Survey conducted in 29 states of the India in the second week of January 2006. The survey was conducted at 956 locations spread across 230 Parliamentary constituencies in which 15,141 respondents were interviewed.

<sup>113</sup> With the kind of electoral mandate that Kumar obtained in the 2010 elections, it appears that Bihar is headed towards a Tamil-Nadu-type of two party competition, centered around two leaders with mass appeal. If the political competition that emerges is programmatic, if the economic growth of recent years is sustained and if the power sector problems are addressed Bihar may witness a transformation that nobody thought was possible even five years ago.

<sup>114</sup> Jayaprakash Narayan, widely known as JP, was an Indian freedom fighter and political leader, remembered especially for leading the opposition to Indira Gandhi in the 1970s and for giving a call for peaceful Total Revolution.

year, the Patna University Students' Union chose Yadav as its president. Both went to jail in 1974 under the Maintenance of Internal Security Act (MISA<sup>115</sup>), and during the emergency in 1975. Both are BC leaders and, unlike Congress Party chief ministers elected during the 1970s and 1980s, they owed their leadership positions to the people of Bihar<sup>116</sup>.

Despite having so much in common, their performance in terms of promoting economic development in Bihar was substantially different. There are many potential explanations, many of them reaching deep into the social and political structure and culture of the state (Clements 2005; Witsoe 2007b). Some have argued that Bihar's rapid progress since 2005 was possible only because of the dramatic social re-engineering that Yadav was able to achieve<sup>117</sup>. It is too early to reach a definitive conclusion, but a few aspects of the differences between the Yadav and Kumar regimes illustrate the main research question of this thesis:

- The dramatically improved performance after 2005 was possible even though most other conditions, including the level of competency of the state apparatus, remained the same
- Because upper castes were an important part of the ruling coalition that Kumar assembled, he was no longer constrained by the dichotomy between the ruling elite and the bureaucratic elite
- By mobilising support on a platform that promised BC, Muslim and SC empowerment as well as economic development and crime control, the

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<sup>115</sup> MISA was a draconian law enacted by Prime Minister Indira Gandhi to detain political opponents.

<sup>116</sup> Congress chief ministers during the period owed their offices to the patronage they enjoyed from leadership in Delhi.

<sup>117</sup> Others have said that Yadav was able to accomplish what he did with the railways only because of the steps that Kumar had initiated as railway minister.

political circumstances for enhancing administrative capacity and improving the use of fiscal transfers was possible under Kumar

The improved all round performance was the result of a political need. The positive impact this had on state capacity—‘state capacity by design’—was intended and real.

### **6.7 Lalu Prasad Yadav’s Railway**

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Yadav was railway minister in the Central Government from 2004 to 2009. Unlike his record in Bihar, he gained a reputation for being a successful reformer, and for being responsible for a marked improvement in the performance of India’s national railways. Within two years of assuming office, the Indian Railways, once described as terminally ill (NCAER 2001), went from being on the verge of bankruptcy to an entity with revenues of US\$6 billion in 2007 (Olynec 2009). They became the second-largest, profit-making public sector undertaking in India (Raghuram 2007).

The revival of the railway behemoth is now a popular case study in policy and business schools around the world. Prasad rejected advice from the World Bank to increase fares, layoff employees and privatise the core business of the organisation. Instead, he kept the 1.4 million employees, reduced fares, improved efficiency, and started partnerships with private companies. (Olynec 2009)

More than the turnaround for the railways, this was a turnaround for Yadav<sup>118</sup>. Faced with a desire to one day become prime minister of India (Rediff India Abroad 2006), he

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<sup>118</sup> Some commentators have blamed the then principal secretary to the chief minister, a BC IAS officer from the Bihar cadre known for his personal integrity, for Bihar’s poor development performance between 1990 and 2005 (Verma). It is ironic that Yadav’s success as Railway minister is also sometimes attributed to another BC IAS officer from the Bihar cadre who worked with him as officer on special duty in the Railway Ministry. Geddes’ statement that ‘To understand how presidents make choices among potential appointment strategies, we need to first consider their long term goals’ (1994) rings true in an analysis of Bihar’s predicament. A live recording of the speech by Lalu Prasad Yadav and Sudhir Kumar his Officer on Special Duty (OSD) on the Indian Railways at the Lee Kuan Yew School Of Public Policy in Singapore can

set about demonstrating his competence for economic management. The man who as chief minister of Bihar so famously said ‘*vikaas nahiñ, samaan chahiye*’ (we need dignity, not development) (Frankel and Witsoe 2006), when faced with a different set of political circumstance argued that

We have had enough of... slogans and discussions related to roti, kapda and makaan, (food, clothing and shelter) and it will continue. But the fundamental question is from where will roti (food) come? It will not fall from heavens. It will come from infrastructure, which includes power, railways, highways and ports. In the era of globalization, where nations are coming close and barriers have come down due to technological advancements like IT... (L. P. Yadav 2008)

Here, an aspect of Yadav’s ability as a political manager needs reiteration. Until he became chief minister in 1990, no chief minister of Bihar since 1961 had lasted a full five-year term. With the exception of two chiefs, namely K.B. Sahay (1963–67) and Jaganath Mishra (1980–83), none even completed three years. It is against this backdrop that Yadav demonstrated his ability to dominate politics in Bihar for an unbroken period of 15 years, first as *de jure* and later as *de facto* chief minister<sup>119</sup>.

Unshackled from the mill stone of an anti-upper caste mandate and desperate to prove that he had what it takes to one day become the prime minister, Yadav took on the challenge of bringing back the railways from the brink. It is interesting that he used the services of a BC, Bihar-cadre IAS officer to make a success of his tenure in the railways (A. Singh 2007). It was therefore not his incompetence or the lack of competent people to assist him that explains why he governed Bihar the way he did. It was that he chose to use his talents, and those of his officers, in ways that suited his politics.

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be heard at <http://nuscast.nus.edu.sg/PublicEvents/1/MODVideoOnly.asp?KEY=2A7CC58B-6CA7-4B33-A26F-7C99AEA06D00#>

<sup>119</sup> Except for an eight-day period in March 2000, when Kumar was chief minister.

## 6.8 Summary

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Informed by changes since a new government came to power in 2005, and the dramatic change in attitude and performance of Yadav as India's railway minister, I argued in this chapter that the quality of governance under Yadav's leadership worsened for some and improved for others. This was because of the particular political strategy that Yadav's government pursued. This strategy led to a set of political circumstances wherein it became expedient to pay little attention to delivering material 'poverty goods'. The focus on delivering security (while maintaining overall background insecurity) meant that state capacity to use fiscal transfers could be sacrificed with very few political costs.

I discussed four proximate reasons for Bihar under-claiming and under-spending centre–state fiscal transfers. I showed why these were the result of a specific political strategy to solidify core electoral support through rhetorical mobilisation against an upper caste minority who dominated the economy, society and politics. By refusing to recruit upper castes and by closely controlling those already in service, the Yadav regime knowingly destroyed state administrative capacity and sacrificed transfers from Delhi.

He was able to do this and win elections because the FPTP electoral system and electoral arithmetic allowed him to win elections by neglecting everyone except his core supporters. Yadav alleviated the tension inherent in his political strategy by making only very sparing promises about the material benefits he would bring. Instead, he focused on intangible but real benefits for his poor and supporters who, prior to his coming to power, faced social oppression and physical violence on a daily basis.

By preventing communal riots, Yadav earned the support of Muslims. By ensuring that upper-caste landlords were not able to oppress SCs (Bhatia 2005), he secured their electoral support. These gains were cemented by giving cabinet positions to leaders from previously-disadvantaged groups and by ensuring that the largely upper-caste police and civil officials behaved sympathetically to Muslims and SCs. Backward castes, particularly Yadav's, emerged as the principal source through which citizens and officials could hope to access what the state had to offer. They became the new patrons.

Yet in some sectors, where the political incentive for performance survived, there were pockets of productivity. The extraordinary success of the police in preventing communal violence, while failing to control crime, along with the progress made by dairy cooperative societies appears to be evidence of an administrative duality that was driven by political incentives.

Two changes, one for Yadav, when he left Bihar to become railway minister in Delhi, and the other for Bihar, when Kumar left Delhi to become chief minister in Bihar, provide an opportunity to make an important point. The point being that Yadav governed Bihar the way he did, not because of his incompetence, but because he was motivated by his politics to use his talents in other ways. The debilitating consequence of this reality on state capacity—or 'state incapacity by design'—was unintended but real collateral damage.

## Chapter 7 – Key Findings and Implications

In this final chapter, I provide a review of my key findings and analysis of the Bihar paradox, and then go on to discuss how this research may have implications for both policy and theory.

### 7.1 The Bihar Paradox: Key Findings

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This thesis has been concerned with why a political party, the Rashtriya Janata Dal (RJD) led by Lalu Prasad Yadav, which claimed to represent the poor and under-privileged did not claim and spend large amounts of centre–state fiscal transfers that could have reduced poverty, provided employment and benefitted core supporters. It seems antithetical that, in Bihar, a rhetorically pro-poor government that failed to claim and spend grants and maintained a large number of public sector vacancies would enjoy repeated electoral success in the context of credible elections and a majority of poor voters. This phenomenon is the ‘Bihar paradox’.

The Bihar paradox relates to existing research and literature on why democracies fail to pursue pro-poor policies even when the majority are poor. The first challenge in empirically testing the question of why the Government of Bihar failed to implement pro-poor policies was to narrow its boundaries. I did this by identifying CSS and SPA as a set of centre–state fiscal transfer created to fund schemes and programs that, if implemented, could have improved the lives of the poor. Though public spending is a necessary but not sufficient condition for improving the lives of the poor, it is widely acknowledged that development expenditure by the public sector is an important driver

for poverty reduction in India (Harriss 2000; Sen 1996). The second challenge was to select democratically elected entities that operate within a common legal framework but have a diversity of social, economic, political and administrative contexts in order to study the impact of these factors on the uptake of such schemes—and by extension pro-poor policies—in Bihar. Fortunately, Indian states naturally provide the diversity of socio-political conditions within a common legal framework. I therefore chose to focus on the extent to which states claimed CSS and SPA grants and spent CSS funds available to them. I used annual data from 1997/8 to 2004/5 for 16 states as the dependent variable in my quantitative analysis and as the marker for the case study on Bihar.

The two data sets I assembled on CSS and SPA allowed me to compare Bihar with other Indian states. The analysis in Chapter 5 indicates that Bihar was not alone. Poor states in India generally claimed less CSS and SPA funds: as poverty levels increased, the amount of SPA and CSS funds claimed by states went down. A similar trend was found to exist with respect to CSS spending: as poverty levels increased, CSS spending also went down. These findings, though not central to this thesis, indicate that centre–state fiscal transfers were not achieving an important purpose of India’s fiscal transfer system during this period: to decrease inter-state inequality. Rather, more grants were being claimed and spent by richer states, thereby worsening inequality.

What is most significant for my line of enquiry, however, is that these findings revealed that Bihar was different: its level of under-claiming and under-spending was lower than would be expected by its level of poverty. This meant that Bihar’s poverty alone did not explain its underperformance. As I show, this anomaly was not driven by the fiscal



situation of the Bihar government, which was relatively cash rich. The primary reason for under-claiming and under-spending was ‘state incapacity by design’—the *intentional* hobbling of public-sector capacity by government leadership for political gains.

I argue that, under Lalu Prasad Yadav’s watch, the quality of governance in Bihar worsened for some and improved for others. This was due to a particular political strategy he pursued in which it was expedient to pay little attention to delivering material ‘poverty goods’. He mobilised particular caste groups by promising them public sector positions and *izzat*. By denying public sector jobs to non-supporters and demonising the upper-caste bureaucracy, Yadav polarized the electorate and deepened the loyalty of his core constituency. The focus was on delivering security to some (lower-caste supporters) while increasing insecurity for others (the upper castes and non-supporters).

This strategy was largely achieved by centralising authority and ensuring that only officials from the ‘right castes’ occupied important positions. Thanks to the dominant position that upper castes enjoyed in the bureaucracy and the poor educational status of his supporters, many positions were kept vacant while work was shifted to trusted supporters, breaking formal channels of supervision. Oversight institutions dominated by the upper castes, such as the judiciary, would not allow recruitment rules to be broken in order to fill these vacancies with under-qualified Yadav supporters. The costs of a deteriorating bureaucracy (knowingly incurred) were a loss of administrative capacity and, indirectly, the sacrifice of fiscal transfers from Delhi. However, where it was necessary to deliver important selective benefits such as security to his electoral

base, administrative capacity was maintained. Yadav alleviated the tension between pro-poor advocacy and decreased administrative capacity inherent in his strategy by making only sparing promises about the material benefits he would bring to his supporters.

Importantly, despite an overall failure to promote general welfare and development, Yadav and his party continued to win free elections and remained in power between 1990 and 2005. I argue that such non-performance across a range of government activities became electorally viable because of intense factionalism that enabled Yadav and the RJD to retain office by securing the electoral support of less than 30 per cent of the voters. This was possible because the anti-upper caste platform mobilised a core support group of BCs, Muslims and SCs, who together accounted for more than three quarters of the population. Of these, he privileged his own caste, the Yadavs, and this group emerged as the principal source through which citizens and officials could access state benefits. They became the new patrons.

A more inclusive coalition that came to power after 2005 under the leadership of Nitish Kumar had a dramatic impact on the Bihar government's capacity. Bihar today has one of the highest GSDP growth rates in India, development spending has increased, and crime (particularly kidnapping for ransom) has fallen. Most importantly from the perspective of this thesis, Bihar began to claim and use substantially higher amounts of centre–state fiscal transfers. From these changes, we can conclude that the 1990–2005 failures were a product of the political incentives faced by the administration in power, rather than the configuration of the state apparatus. The post-2005 inclusion of upper castes in the ruling coalition alleviated the tension inherent in Yadav's political strategy and allowed for a renewed focus on general empowerment (rather than the

empowerment of a few groups), economic development, increased bureaucratic and administrative capacity and real development outcomes.

## **7.2 Implications for Policy**

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By tracing the pathways through which administrative capacity is built—when the political imperative requires, or destroys it to further regime survival—the Bihar case suggests possible gains from exploring the political drivers of state capacity in other states in India and perhaps in other regions of the developing world. The trend in both the academic literature (Haggard and Kaufman 1989; Haggard 1990; Stepan 1978) and in policy circles has been to overlook the political drivers of state capacity (Saxena and Ravi 2006; World Bank 1995, 2005). This is non-productive for three reasons.

First, it encourages investment in technical capacity and bureaucratic competence without understanding whether the particular kind of capacity being developed will lead to an improvement in the lives of people and to a reduction in poverty. For example, focusing on the technical knowledge of bureaucrats in Bihar would not have improved the use of transfers, as the problem had its origins in political incentives.

Second, without an understanding of the political context, we may miss opportunities for poverty reduction by focusing efforts on improving dysfunctional symptoms or technical assistance, rather than working with the political incentives that politicians face. Later in this section I discuss how a more nuanced understanding of Bihar and its politics during Yadav's dominance would have made it possible for both donors and the central government to work with the state government to reduce poverty within the existing context.

Third, ignoring political context leads to the straight-jacketing of schemes. This has happened with CSS, leaving very little flexibility for opportunistic programming that responds to possibilities that emerge at the intersection of political expediency and poverty reduction.

Chapter 3 showed how Bihar has had a troubled history of economic growth, poverty reduction and social inequity. During the fifteen-year period from 1990 to 2005, while the situation with respect to social inequity improved, Bihar's performance *vis-à-vis* growth and poverty reduction was problematic. This coincided with a lack of appetite for development spending. Large sums of money that could have reduced poverty, provided employment and benefitted core supporters went unclaimed and unspent.

From my interactions with policy makers in Delhi, and those with international donors, I know that there was no appreciation of political drivers of Bihar's or other poor states' inability to claim and spend CSS grants. The following extract from a paper written for the National Advisory Council in India by one of India's most respected IAS officers who currently serves as an advisor to the Supreme Court of India is illustrative of this perspective:

... if on the whole, Bihar, Jharkhand and Assam, bring down the share of poor States in overall utilisation, it is not because of political factors. The most important factor is the state of their administration which is sleepy and indifferent to implementation of schemes. (Saxena and Ravi 2006)

As an IAS officer who served with both the Government of Bihar and the Government of India during this period, I shared this analysis at that time. With hindsight and the findings from my research, I now have a different perspective. What most of us failed to

grasp were the policy implications and importance of the pockets of productivity that did exist in Bihar and the political rhetoric of the time.

Discussions in Chapter 6 indicate that, despite being notorious for lawlessness and crime, the Bihar government was very effective in preventing communal riots. This was despite one of the lowest police–population ratios among Indian states and grave provocations during the Babri mosque and Ram temple dispute at Ayodhya. Chapter 6 explains how, because Muslims suffered most during communal violence and Yadav was keen to garner their support, he used all the resources of his government to prevent future breakouts of communal violence.

Another sector that witnessed this performance duality and failure was cooperatives. As registrar (regulator) of cooperative societies in Bihar from 2003 to 2004, I was witness to government’s lack of interest in this sector. As in the case of crime control, the lack of interest in developing cooperatives had its roots in politics. In the same way that the bureaucratic elite and the new rulers were from opposing caste groups, so it was in the cooperative sector. The leadership of cooperative institutions were in the hands of land-owning, upper-caste members. However, the cooperatives that did receive government support and did very well were those with caste ties to Yadav, in this case dairy cooperatives (Tewary 2002).

The policy lessons from these pockets of productivity are quite simple. When the political incentive is there, political will is rarely a problem. Many donors and policy makers know this. Yet their actions do not often correspond with this knowledge because they mistake ‘being apolitical’ with disregarding the political imperatives inherent in any governance context.

Failure to grasp this tenet of democratic politics (and not-so-democratic ones), led to our inability to act on opportunities for poverty reduction that were available. As an IAS officer, I have attended official review meetings in Delhi on behalf of the Bihar government. In most, we were berated for our inability to spend and improve performance. We never discussed how we could work within the political constraints of the time to improve the development impact of the plethora of schemes that we were seeking to implement.

From Chapter 3, we know that the constituency Yadav was seeking to mobilise were poor and underprivileged groups. Together, these groups were over three-fourths of the population of Bihar. Anything that could have been done to improve their lot would have logically received political backing, had it not required the involvement of an upper-caste dominated state bureaucracy. Having mobilised electoral support by arguing that, ‘You have been deprived of your share because those who ruled the state were not bothered about you... But now your man has captured the establishment ... ‘Burabal Hatao’ wipe out the upper castes...’ (Thakur 2000: 85), Yadav’s options to engage this bureaucracy were limited.

Two relatively unknown initiatives of Yadav—both of which failed, one due to lack of financial resources and the other because of inadequate management support—reinforce this point. The first was an attempt to improve uptake and quality of the IAY, which provided cash transfers to homeless Dalits for building houses. Yadav pursued this for some time, personally travelling to Dalit hamlets to supervise implementation and requiring his senior officers to do so. However, his efforts were not productive:

Laloo Yadav was a headache for officers, a nuisance and a nightmare. He would stop at the roadside and order a set of dwellings for the poor to be built without caring whether the land was the government's or where the money would come from. He would dismiss officials and not wonder about replacements. (Thakur 2000: 87)

The scheme was soon abandoned because many homeless Dalits were also landless. In Yadav's judgement, his administration did not have the financial nor the considerable administrative resources required to buy land and make it available to the poor (an opportunity for Central Government or donor intervention that nobody identified).

The second example was a scheme Yadav launched in December 1991, within a year of assuming office. He called it the scheme for *Charwaha Vidyalayas* (grazing schools). It was aimed at imparting basic education to children of poor farmers and landless workers who could not otherwise attend school because they had to graze their parent's cattle. In other words, it was a school for Yadav children. The plan was to get children to bring their herd to school and learn while the animals grazed in the attached fields. He financed this scheme by drawing from a number of CSS. For example, he used TRYSEM<sup>120</sup> for providing training, IRDP for subsidised credit, RLEGP<sup>121</sup> for building the school and ICDS for providing day care and supplementary nutrition. For land to situate the school and the grazing grounds, he used state agricultural farms that were meant to produce seeds and demonstrate modern agricultural practices (Abhijit Sinha 1995). A project this complex required coordination between many schemes and departments, and thus floundered for want of senior management support. This was another missed opportunity for donors<sup>122</sup> and the Central Government to intervene in

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<sup>120</sup> Training of Rural Youth for Self Employment.

<sup>121</sup> Rural Labour Employment Guarantee Scheme

<sup>122</sup> At one stage UNICEF showed interest and began to support the scheme, but enthusiasm flagged and they made a quiet exit.

order to combat poverty by providing management support and supplementary financing.

What the above examples indicate is that despite serious issues with state administrative capacity in Bihar between 1990 and 2005, there were opportunities at the intersection of political expediency and poverty reduction, which neither the Central Government nor donors capitalised on. The record of international donors prior to 2005 was particularly bad, with 80 per cent of aid going to the most prosperous and reform-minded Indian states, with a disbursement in Bihar of almost zero (Khullar et al. 2008).

The lessons from Bihar suggest a number of policy innovations. One is the need to find apolitical ways in which to shape political incentives. An example of this would be to aggregate data on public expenditure as well as outputs and outcomes from schemes on an electoral district basis, rather than current practice of reporting on the basis of administrative units. This has the potential to drive political competition in ways that are beneficial to the poor. A second suggestion is to be opportunistic and locate interventions that sit at the intersection between political expediency and poverty reduction, but this requires the ability to spot a window of opportunity when one presents itself and access to flexible funding, both of which governments and donors seem to shy away from.

### **7.3 Implications for Theory**

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The findings from this thesis reinforce the arguments made by Geddes (1994) that the institutionally-determined incentives that face political leaders might explain certain actions and behaviour that are otherwise unexpected. By recognising that economic



costs might have political benefits, this thesis highlights why the development of state capacity in Bihar depended on the extent to which it served the immediate career interests of the politicians in power. As described earlier, Geddes calls this phenomenon the politician's dilemma: 'the wrenching conflict between their own need for immediate political survival and longer run collective interests in economic performance' (1994: 18).

The Bihar story revolves around a chance combination of circumstances and a political entrepreneur who seized the opportunity these conditions provided to rule over Bihar for 15 years, and in doing so perpetuated and deepened them. There may be other people in the world with Yadav's ambitions, abilities, and particular political dilemma. Yet the specific circumstances that permitted him to stay in office for so long are also unlikely to recur frequently.

Still, this story has significance beyond understanding the recent history of Bihar. It is centrally relevant to the ways in which we think about governance, particularly state-building and public sector reform. First, the example of Bihar from 1990 to 2005 is yet another warning about how easy it is to foster pessimism by attributing governance problems in poor countries to deeply embedded historical or cultural factors, when in fact they may have more immediate, political and tractable causes. There is no doubt that Bihar has socio-political problems with deep historical roots, as discussed in Chapter 3. However, it was short-term political strategy, not deep history, which tipped Bihar into a particularly perverse pattern of governance during these years. Second, this story is part of a much larger set of contemporary cases where small groups of power-

holders have pursued narrow, particularistic ends while consciously undermining government institutions from within.

There is an enormous body of literature on the contemporary obstacles and setbacks to the creation of effective public authority in the poorer parts of the world. The literature typically sports labels like state-building, capacity development, institution building or public sector reform. The attention paid to actual state breakdown, and to the problems of recreating effective political order after civil war, has increased greatly over the last two decades. The end of the Cold War helped trigger a series of major authority failures in places like Afghanistan, the Balkans, the Democratic Republic of Congo, Central Asia, Pakistan, Sierra Leone, Somalia and Timor Leste. Yet we know very little on why this happened or what we can do to mitigate its effects. The more dramatic cases—internal armed conflicts—have received considerable attention and we know a great deal more about the topic than we did two decades ago (Fearon and Laitin 2003; Munkler 2005; Wimmer et al. 2009).

By contrast, the causes of the less visible kinds of authority failures—more routine, everyday declines in the capacities of public agencies and their responsiveness to citizens—have received less, and lower quality, research attention. The dominant mode in policy circles of explaining the accumulation of these routine failures, and thus the prevalence of poor governments in many poorer parts of the world, is exemplified in the ‘Afro-pessimism’ literature<sup>123</sup>: failure is assumed or asserted to be deeply embedded in national and regional history and culture. Aid agencies tend implicitly to ‘naturalise’ poor governance in poor countries: ‘it exists because it is there’. Poor governance

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<sup>123</sup> For a critique of this outlook, see (Therkildsen 2005).

requires no explanation beyond listing sets of symptoms (corruption, low capacity, centralisation, weak property rights, and lack of accountability or popular voice, weak rule of law) that in turn validate intervention programmes. This perspective anticipates that, once the right interventions are made, there will be cumulative, if uneven and interrupted, progress in building effective public authority.

The notion that the construction of public authority is mainly a matter of forward marches, (albeit at different and varying paces), is not consistent with the political science and historical literature on the subject. Scholars tend to emphasise the ephemeral character of most states or other forms of effective public authority. History tells us that most attempts to create durable, large-scale governance institutions fail, and that many successful institutions do not endure. Most polities are very fragile, and those that survive long enough are rare exceptions (Mann 1993; Scott 2009; Tilly 1992).

Ganev, referring to Mann's work on the history of state formation, writes:

Mann's principal insight is that organizational dominance of the state is not a static equilibrium occasionally disrupted by foreign invaders or armed revolts of oppressed masses. Rather, it is a necessarily precarious arrangement that may rapidly unravel if and when powerful groups launch an offensive to claim state-accumulated resources. (2007: 56)

It follows that to understand contemporary 'fragile' polities, we need to re-balance the analysis, especially when dealing with policy options. Yes, we do need to continue to ask who is motivated and be able to build and strengthen legitimate, effective public authority. But we also need to look dialectically at the converse processes, and examine the more or less continuous incentives and initiatives to deconstruct, weaken or destroy public authority. It matters in particular that we should have a better understanding of

how this is done by powerful insiders, the same people who are often believed to be in need of external assistance for state building.

A deeper understanding of the political circumstances in Bihar from 1990 to 2005 showcases how the eroding of governance can be orchestrated to serve those in power. Although extraordinary, the example of Yadav's ability to create 'state incapacity by design' can serve as a lesson—and perhaps a warning—to theorists, local actors and international donors who seek to understand and engage in state-building.

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## Annexure 1 – Caste Composition of Bihar (Sub-Region)

| Caste Composition of Bihar (sub region-wise) (%) |             |             |             |                                    |             |
|--|-------------|-------------|-------------|------------------------------------|-------------|
| Castes and Communities                           | Bihar 1931  |             |             |                                    |             |
|  | North Bihar | South Bihar | First Total | Chhota Nagpur Plateau <sup>b</sup> | Total       |
| <b>Upper Caste</b>                               | <b>16.1</b> | <b>19.9</b> | <b>17.7</b> | <b>3.9</b>                         | <b>13.7</b> |
| Brahmin  | 6.7         | 5.8         | 6.4         | 1.7                                | 5           |
| Bhumihar   | 3           | 6.2         | 4.1         | 0.4                                | 3           |
| Rajput   | 5           | 6.2         | 4.1         | 0.4                                | 3           |
| Kayastha   | 1.4         | 1.7         | 1.5         | 0.5                                | 1.2         |
| <b>Backward Castes</b>                           | <b>24.3</b> | <b>27.4</b> | <b>24.8</b> | <b>9.4</b>                         | <b>20.2</b> |
| Yadav  | 14          | 15.7        | 14.6        | 4.7                                | 11.7        |
| Kurmi  | 3.5         | 4.4         | 3.8         | 2.9                                | 3.5         |
| Koeri  | 5.3         | 6.3         | 5.7         | 1.4                                | 4.4         |
| Baniya   | 0.5         | 1           | 0.7         | 0.4                                | 0.6         |
| <b>Extremely Backward Castes</b>                 | <b>22.2</b> | <b>20.3</b> | <b>21.3</b> | <b>10.2</b>                        | <b>18.2</b> |
| Barhi  | 0.9         | 1.7         | 1.2         | 0.6                                | 1           |
| Dhanuk   | 2.9         | 2           | 2.6         | 0.2                                | 1.9         |
| Ghatwar  | 0           | 0           | 0           | 0.6                                | 0.2         |
| Kahar  | 0.7         | 4.3         | 2           | 1.1                                | 1.7         |
| Kamar/Lohar                                      | 1.5         | 1           | 1.3         | 1.5                                | 1.4         |
| Kandu, Kanu                                      | 2.3         | 2.4         | 2.4         | 0.2                                | 1.7         |
| Kewat  | 1.4         | 0           | 0.9         | 0.1                                | 0.7         |
| Khetauri <sup>a</sup>                            | 0           | 0           | 0           | 0.3                                | 0.1         |
| Kumhar   | 1.3         | 1.5         | 1.4         | 1.3                                | 1.4         |
| Mali   | 0.3         | 0.3         | 0.3         | 0.1                                | 0.2         |
| Mallah   | 3           | 0.7         | 2.1         | 0.2                                | 1.6         |
| Nai  | 1.6         | 1.9         | 1.7         | 0.9                                | 1.5         |
| Tanti  | 2.6         | 1.6         | 2.2         | 0.7                                | 1.8         |
| Teli   | 3.4         | 2.9         | 3.2         | 2.2                                | 2.9         |
| Tharu <sup>a</sup>                               | 0.3         | 0           | 0.2         | 0                                  | 0.1         |
| <b>Scheduled Castes</b>                          | <b>16.9</b> | <b>20.8</b> | <b>18.3</b> | <b>10.6</b>                        | <b>15.9</b> |
| Bhogta   | 0           | 0.1         | 0           | 0.7                                | 0.2         |
| Bhuiya <sup>a</sup>                              | 0.2         | 2.2         | 1           | 3                                  | 1.6         |
| Bhumij <sup>a</sup>                              | 0           | 0           | 0           | 0.8                                | 0.2         |
| Chamar   | 5.5         | 4.9         | 5.3         | 1.9                                | 4.3         |
| Dhobi  | 1.1         | 0.9         | 1           | 0.5                                | 0.9         |
| Dom  | 0.4         | 0.3         | 0.3         | 0.7                                | 0.4         |
| Dusadh   | 5.7         | 6.2         | 5.8         | 0.9                                | 4.4         |

|                             |             |             |            |             |             |
|-----------------------------|-------------|-------------|------------|-------------|-------------|
| Ghasi                       | 0           | 0           | 0          | 0.5         | 0.1         |
| Hari                        | 0.3         | 0           | 0.2        | 0.1         | 0.1         |
| Musahar                     | 3.2         | 3.7         | 3.4        | 0.2         | 2.4         |
| Pasi                        | 0.3         | 1.6         | 0.8        | 0.1         | 0.6         |
| Rajwar                      | 0           | 0.8         | 0.3        | 0.3         | 0.3         |
| Turi                        | 0           | 0           | 0          | 0.5         | 0.2         |
| Others                      | 0.2         | 0.1         | 0.2        | 0.4         | 0.2         |
| <b>Scheduled Tribes</b>     | <b>0.8</b>  | <b>0.4</b>  | <b>0.6</b> | <b>32.3</b> | <b>9.9</b>  |
| Chero                       | ...         | ...         | ...        | 0.2         | 0.1         |
| Chik Baraik                 | ...         | ...         | ...        | 0.3         | 0.1         |
| Gond                        | ...         | ...         | ...        | 0.2         | 0.1         |
| Ho                          | ...         | ...         | ...        | 3.9         | 1.2         |
| Kharia                      | ...         | ...         | ...        | 0.9         | 0.3         |
| Kharwar                     | ...         | ...         | ...        | 0.7         | 0.2         |
| Khetauri                    | ...         | ...         | ...        | 0.3         | 0.1         |
| Mahli                       | ...         | ...         | ...        | 0.5         | 0.2         |
| Mal Paharia                 | ...         | ...         | ...        | 0.4         | 0.1         |
| Munda                       | 0           | 0           | 0          | 5.4         | 1.6         |
| Oraon                       | 0.2         | 0           | 0.1        | 6.1         | 1.9         |
| Santhal                     | 0.6         | 0.4         | 0.5        | 11.9        | 3.9         |
| Sauria Paharia              | ...         | ...         | ...        | 0.7         | 0.2         |
| Others                      | ...         | 0           | 0          | 0.8         | 0.2         |
| <b>Religious Minorities</b> | <b>20.5</b> | <b>11.1</b> | <b>17</b>  | <b>32.4</b> | <b>21.3</b> |
| Muslims                     | 20.3        | 10.9        | 16.8       | 6.6         | 13.8        |
| Christians                  | 0.1         | 0.1         | 0.1        | 3.6         | 1.1         |
| Sikhs                       | 0           | 0           | 0          | 0           | 0           |
| Others <sup>d</sup>         | 0.1         | 0.1         | 0.1        | 22.2        | 6.6         |
| <b>Unidentified</b>         | ...         | ...         | ...        | <b>0.9</b>  | <b>0.3</b>  |
| TOTAL                       | 99.8        | 99.9        | 99.9       | 98.9        | 99.6        |
|                             | (100.8)     |             | (99.7)     | (99.7)      | (99.5)      |

Source: Census of India 1931 cited in Robin (2009: 67)

Notes:

<sup>a</sup> Considered as Tribes in the Census 1931

<sup>b</sup> Chhota Nagpur Plateau (it corresponds to the state of Jharkhand in the year 2001 plus the Manbhum district): Hazaribagh, Ranchi, Palamau, Garhwa, Lohardaga, Kodarma, Giridih, Sahibganj, Gumla, Pakaur, Chatra, Bokaro, Dhanbad, Deoghar, Dumka, East Singhbhum, West Singhbhum, Saraikala-Kharsawan<sup>c</sup>

<sup>c</sup> Both Saraikela and Kharsawan were former feudatory states and formed a single district only in 1931

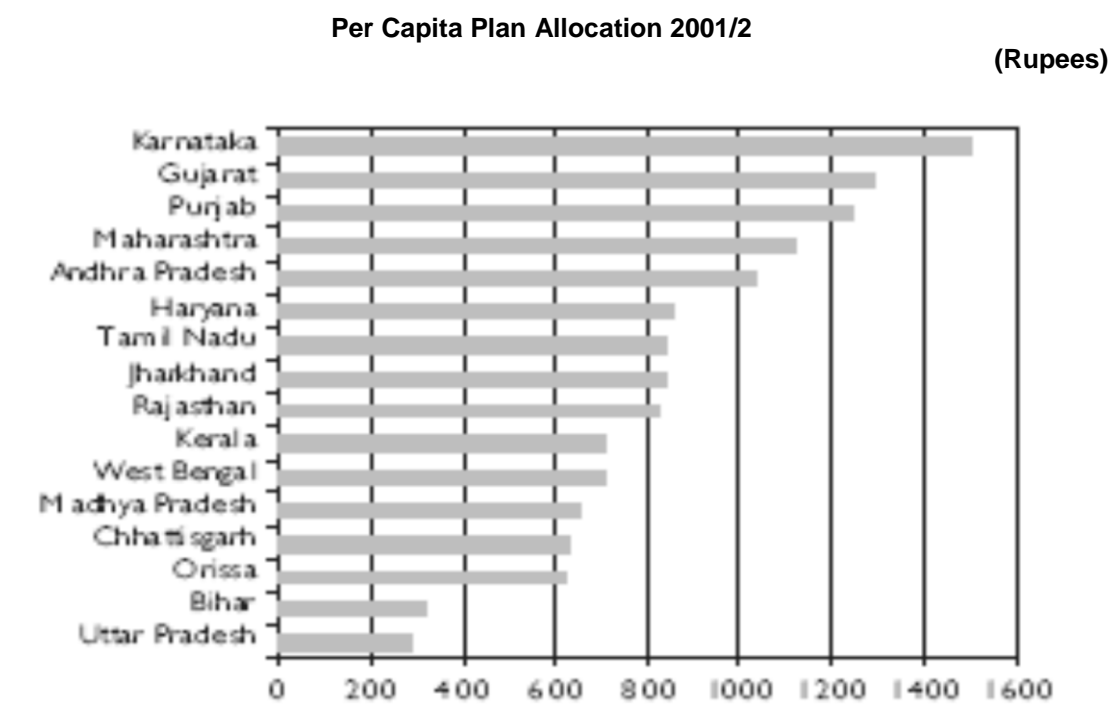
<sup>d</sup> Jains, Buddhists, Zoroastrians, tribal religions

## Annexure 2 – Gadgil Formula

| Items (Weights %)  | Original Formula <sup>a.</sup><br>(1969) | Modified Formula<br>(1980) | Latest Formula<br>(1991) |
|--|--|----------------------------|--------------------------|
| Population   | 60                                       | 60                         | 60                       |
| Tax Effort   | 10                                       | 10                         | -                        |
| Per Capita Income <sup>b.</sup>  | 10                                       | 20                         | 25                       |
| Subsistence  | -  | -                          | -                        |
| Irrigation and Power Projects  | 10                                       | -                          | -                        |
| Special Problems   | 10                                       | 10                         | 7.5                      |
| Performance: <ul style="list-style-type: none"> <li>• Tax Effort</li> <li>• Fiscal Management</li> <li>• Progress in Respect of National Objectives<sup>c.</sup></li> </ul>  | -<br>-<br>-<br>-                         | -<br>-<br>-<br>-           | 7.5                      |
| TOTAL  | 100                                      | 100                        | 100                      |
| <b>Notes</b> <ul style="list-style-type: none"> <li>a. The Gadgil Formula. Population data are from 1971</li> <li>b. Assistance going to states having a per capita income below the national average</li> <li>c. Population control, child health and primary education, land reform &amp; uptake of external assistance</li> </ul> |  |                            |                          |

*Source: World Bank (1995)*

### Annexure 3 – Per Capita Plan Allocation, 2001/2



Source: World Bank (2005: 44)

## Annexure 4 – Transfers by State Income

| Transfers Relative to the Per Capita Ranking of Major States<br>1992-93 |                      |                             |                            |   |
|---|----------------------|-----------------------------|----------------------------|---|
|   | Per capita<br>Income | Per capita State<br>Revenue | Per capita<br>FC transfers | Per capita PC<br>transfers <sup>a</sup> . |
| Punjab  | 1                    | 4                           | 12                         | 2   |
| Haryana   | 2                    | 1                           | 14                         | 6   |
| Maharashtra   | 3                    | 3                           | 13                         | 11  |
| Gujrat  | 4                    | 2                           | 10                         | 7   |
| Karnataka   | 5                    | 5                           | 11                         | 5   |
| Tamil Nadu  | 6                    | 6                           | 7                          | 8   |
| West Bengal   | 7                    | 11                          | 8                          | 12  |
| Andhra Pradesh  | 8                    | 8                           | 9                          | 10  |
| Kerala  | 9                    | 7                           | 6                          | 3   |
| Rajasthan   | 10                   | 9                           | 2                          | 4   |
| Madhya Pradesh  | 11                   | 10                          | 5                          | 13  |
| Uttar Pradesh   | 12                   | 12                          | 4                          | 9   |
| Orissa  | 13                   | 13                          | 1                          | 1   |
| Bihar   | 14                   | 14                          | 3                          | 14  |
| Spearman's Rank Correlation<br>(with Per – Capita Income)               |                      | 0.92                        | -0.93                      | 0.23                                      |
| a. Includes externally aided projects.                                  |                      |                             |                            |   |

*Source: World Bank(1995)*



## Annexure 5 – Planning Commission Letter on CSS data



R. Sridharan  
Joint Secretary (SP)  
Telefax: 011-23096598

भारत सरकार  
योजना आयोग  
योजना भवन  
नई दिल्ली-110001  
GOVERNMENT OF INDIA  
PLANNING COMMISSION  
YOJANA BHAVAN  
NEW DELHI-110001

D.O M-13011/3/2005-SP-Co

September 20, 2005

Dear Planning Secretary,

Kindly refer to DO letter No. M-13011/3/2005-SP-Co dated the 6<sup>th</sup> September 2005 from Deputy Chairman, Planning Commission to the Chief Minister of your State/Union Territory regarding Annual Plan discussions for 2006-07 (copy enclosed). As stated in para 9 of this letter, I am sending herewith a set of formats for furnishing the details of Annual Plan 2006-07 proposals of your State/Union Territory. The formats are largely similar to those used last year, except for some minimal changes.

2. The proposed date for the meeting between Deputy Chairman and the Chief Minister referred to in para 5 of the letter mentioned above would be intimated to you in due course for confirmation of the convenience of the Chief Minister.

3. As indicated in paras 7 and 8 of the Deputy Chairman's letter mentioned above, I request you to please ensure that the issues of District Planning Committee (DPC) and Earmarking of Funds for SCP/TSP are taken care of while preparing the Proposals for Annual Plan 2006-07. A separate write-up on District Plans may be enclosed with the Annual Plan proposals. A note indicating the points that need to be covered in this write-up is enclosed as Appendix A. I also wish to bring to your notice that the Transport and Industry Sectors require some additional information as per Appendix B & C respectively. This information may kindly be provided in their respective chapters for meaningful discussions in the Working Groups.

4. You may please send 15 (fifteen) hard copies of your Annual Plan 2006-07 proposal and one set of soft copy in MS Word for write-up and in MS Excel for statements (condensed, if found necessary, using WinZip only) in CDs/Floppy Disc to State Plans Division in the Planning Commission latest by 15<sup>th</sup> October, 2005.

With regards

Yours sincerely,

*R.*  
20/9/05  
(R. Sridharan)

Encl.: As above

Planning Secretaries of all States/UTs

**Annexure – 5 (contd.)****ANNEXURE - VII****CENTRALLY SPONSORED SCHEMES**

| Sl.<br>No. | Name of the Scheme | Pattern of Funding |                | Tenth Plan 2002-07<br>Projected Outlay |                |
|------------|--------------------|--------------------|----------------|--|----------------|
|            |                    | Central<br>Share   | State<br>Share | Central<br>Share                       | State<br>Share |
| 0.         | 1.                 | 2.                 | 3.             | 4.                                     | 5.             |
|            |                    |                    |                |  |                |
|            |                    |                    |                |  |                |
|            |                    |                    |                |  |                |
|            |                    |                    |                |  |                |
|            |                    |                    |                |  |                |
|            |                    |                    |                |  |                |
|            |                    |                    |                |  |                |
|            |                    |                    |                |  |                |
|            |                    |                    |                |  |                |
|            |                    |                    |                |  |                |

Note : Schemewise details to be furnished.

**FILE NAME : A9****ANNEXURE - VII (Contd.)****CENTRALLY SPONSORED SCHEMES**

| Sl.<br>No. | Name of the Scheme | Annual Plan - 2005-06 |                |                            |
|------------|--------------------|-----------------------|----------------|----------------------------|
|            |                    | Outlay                |                | Anticipated<br>Expenditure |
|            |                    | Central<br>Share      | State<br>Share |                            |
| 0.         | 1.                 | 6.                    | 7.             | 8.                         |
|            |                    |                       |                |                            |
|            |                    |                       |                |                            |
|            |                    |                       |                |                            |
|            |                    |                       |                |                            |
|            |                    |                       |                |                            |
|            |                    |                       |                |                            |
|            |                    |                       |                |                            |
|            |                    |                       |                |                            |
|            |                    |                       |                |                            |
|            |                    |                       |                |                            |

Note : Schemewise details to be furnished.

**FILE NAME : A9**

## Annexure 6 – CAG's Manual of Standing Orders

केवल भा.ले. तथा ले.प. विभाग में प्रयोग के लिए  
FOR USE OF IA&AD ONLY



नियंत्रक-महालेखापरीक्षक  
COMPTROLLER & AUDITOR GENERAL'S  
के स्थायी आदेशों की पुस्तिका  
MANUAL OF STANDING ORDERS  
(लेखापरीक्षा)  
(AUDIT)

(द्वितीय संस्करण - 2002)  
(SECOND EDITION - 2002)

भारत के नियंत्रक-महालेखापरीक्षक के प्राधिकार से जारी किया गया  
ISSUED BY THE AUTHORITY OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA



### **Grants of land, assignment of revenue and other concessions involving relinquishment of revenue**

3.23.15 All orders relating to grant of land, assignment of revenue or concession, grant, lease or licence of mineral or forest rights or a right of water power, or any easement or privilege in respect of any such concession or which in any way involve relinquishment of revenue come within the purview of Audit as they have important financial implications. Audit may assume that departments cannot sanction, without prior consultation with the Finance Ministry/Department, concessions of this nature other than those that may be in accord with any general delegations made by the latter. For the proper discharge of its duty by Audit in regard to these concessions, all sanctions accorded to such grants, assignments, etc. are required to be communicated to it by the Government concerned for scrutiny. The audit of these sanctions is conducted from the point of view of regularity as well as propriety.

### **Certification of expenditure on Plan schemes**

3.23.16 The Government of India releases each year assistance in the form of grants and/or loans to various States and Union Territory Governments for different Central and centrally sponsored schemes in accordance with the pattern specified in the sanctions relating to these schemes. While the entire expenditure on certain schemes is borne by the Central Government, expenditure on others is shared between the Central Government and the State or Union Territory Government, as the case may be. The assistance in respect of State Plan schemes takes the form of Block Grants and loans that are related to the total outlay allotted for the State Plan as a whole by the Planning Commission without linkage with the individual schemes except to the extent of certain earmarked categories like power, major irrigation schemes, elementary education, rural water supply, minimum needs programme and some schemes in the agriculture and allied sectors. Besides the Plan assistance, the State and Union Territory Governments also receive assistance in the form of loans and/or grants from different Ministries of the Government of India for meeting certain items of non-Plan expenditure, such as those intended for mitigating the impact of natural calamities, rehabilitation of refugees, provision of fertilizer loans, loans under the National Loan Scholarship Scheme, etc.

3.23.17 Except in respect of certain some Non-Plan schemes, the assistance is released in advance by the Government of India based on the claims submitted forward by the State or Union Territory Government concerned, subject to its final adjustment in due course based on the actual expenditure. According to the procedure prescribed by the Ministry of Finance for finalising the assistance relating to Plan Schemes, the final claims are to be preferred, in the prescribed proforma, by the State and Union Territory Governments on the basis of audited figures of expenditure.

3.23.18 After the accounts of the year are closed, the Accountant General (A&E) will prepare Statements of Expenditure for the grants in question, indicating therein the items placed under objection by him, and furnish these to the Accountant General (Audit) for audit and certification. The Central Audit Support Section in the office of the Accountant General (Audit) should audit the statements received from the A&E office and forward certified copies of the statements to the Ministry of Finance, the administrative ministries concerned, and the State/Union Territory Government concerned, indicating therein the amounts placed under objection by both the A&E office and the Audit officer. The State/Union Territory Government concerned will prefer its final claims based on these audited statements.

3.23.19 The Accountant General (Audit) shall prepare, in consultation with the Accountant General (A&E), an action plan for segregating the actual expenditure under the Central Plan, Centrally Sponsored and State Plan schemes financed out of central assistance and arrange their audit immediately on closure of the accounts of the year. In order to facilitate the preparation of the action plan, the following information should be called for from the State Governments:

- (i) Number of schemes and their details.
- (ii) Details of the Heads of Account, including sub-heads and detailed heads, under which expenditure on each individual scheme is booked.
- (iii) Sanctions of the Union and State Governments pertaining to each scheme.
- (iv) Particulars of all implementing agencies executing the schemes throughout the State.
- (v) Budget provisions and details of systems in force for control over expenditure.

3.23.20 The local audit and central audit parties should be instructed to indicate in the Inspection Reports, details of the scheme, the drawing officers and classification in respect of the amounts held under objection in the course of their audit. The local audit parties should also be advised to collect, in the course of their audit of the sanctioning authorities, relevant information in regard to utilisation certificates not furnished.

3.23.21 While certifying the expenditure, objections of a routine nature such as non-availability of some vouchers, absence of budget allotment, non-availability of sanction, etc, which would not affect the Central assistance may be ignored. It should, however, be borne in mind that:

- (i) the amounts drawn in abstract bills for which detailed bills have not been submitted should be excluded;
- (ii) any item of expenditure found to be clearly ineligible for Central assistance with reference to the terms or the instructions of the Government of India governing such assistance should not be included and if the amount involved cannot be precisely determined, the certificate should be qualified accordingly;
- (iii) any point of doubt in regard to eligibility for Central assistance should be got clarified from the administrative ministry concerned; and
- (iv) the certificate should be qualified that it has been issued without prejudice to the right of the Comptroller and Auditor General to include in the Audit Report any comments arising out of the audit in regard to utilisation of Central assistance by State Governments.

3.23.22 Whenever expenditure is not identifiable for the purpose of certification, as much information as may be available in the accounts records of the Accountant General (A&E) should be furnished leaving it to the Ministry of Finance to call for such further information as may be necessary from the State/Union Territory Governments for finalisation of the Central assistance. The following procedure may be adopted in such cases:

- (i) If details of the break-up of expenditure under State Plan schemes, Central Plan schemes and Centrally Sponsored schemes are separately available in the Finance and detailed Appropriation Accounts, these may be furnished along with scheme-wise details to the extent



available; otherwise, the total plan expenditure under each minor head may be furnished supported by scheme-wise details to the extent available.

- (ii) Loans and grants given to local bodies and autonomous bodies may be treated as final expenditure.
- (iii) Amounts held under objection on account of non-availability of detailed bills or utilisation certificates may be excluded from the audited figures of expenditure if it is possible to relate them to a particular scheme or category of schemes; otherwise, the certificate may be qualified to indicate that the scheme-wise breakdown of amounts held under objection is not available and that these details are being obtained from the departmental officers.
- (iv) In cases where any scheme has been comprehensively reviewed in audit, attention may be drawn to the relevant paragraphs/review in the Audit Report so that the Central Government can take the irregularities mentioned therein into account at the time of final adjustment of the assistance.

3.23.23 Often, moneys intended as Plan assistance are withdrawn from the Consolidated Fund and paid to an autonomous institution or a local body which does not utilise the funds for the intended purpose. There can also be instances of such withdrawals being paid to a public sector undertaking with the specific direction that the funds should be retained in a personal ledger account to be opened in the treasury so as to ensure that the ways and means position is not affected. Funds withdrawn from the Consolidated Fund are also often retained either in a bank account or in the form of cash or cheques. Though comments on such instances are included in the Audit Reports, it will also be necessary to review such cases in order to ascertain the actual utilisation of the grants sanctioned and allotted not only by the Central Government but also by the State Government themselves in the Plan Sector for implementation of different Plan schemes. Such cases noticed in course of audit should also be reported as a part of the audit certificate as far as possible.

3.23.24 In States which follow the irregular practice of withdrawing money from the bank or treasury by debit to a specific plan scheme and retaining it in Civil Deposits or Personal Ledger accounts or in the form of cheques or cash, the Accountant General (A&E) should see that the amount is kept under objection and that a note is also kept in a register in the Deposit Section also to watch the release of the deposits and their utilisation in the subsequent year. Department/Directorate-wise details of all such cases should be sent to the Audit Office for examination of the transactions during local audit and linking them with the schemes in respect of that office. A general review of amounts intended for various Plan schemes retained instead in personal deposit accounts by debit to the Consolidated Fund could also be taken up so that irregularities in the utilisation of central assistance could be brought to the special notice of the ministry concerned for taking necessary action at the time of adjustment of the Central assistance.

3.23.25 In cases where the audit certificate is issued before the local audit is undertaken, it should be specifically brought out that the certificate is issued subject to local audit in due course and also without any prejudice to the right to include in the Audit Report any audit comments in regard to the utilisation of the Central assistance by the State Government.

3.23.26 A quarterly progress report indicating the number of schemes for which certificates are to be issued and the progress made in the certification of accounts from time to time should be forwarded by the Accountant General (Audit) to the Office of the Comptroller and Auditor General by the first week of the month following the quarter to which the report relates. The information should be furnished year-wise and separately for each category of Plan schemes. The report for the quarter ending March should be accompanied by a list of schemes for which the audit certificate could not be issued.


#### **Miscellaneous**

3.23.27 For some payments of miscellaneous nature, such as remittance vouchers, cheques, discount vouchers, etc., nothing more than a minimum audit can be prescribed generally. This minimum consists in verifying that there is a sufficient voucher for the payment and that there is sufficient authority for making it.

## Annexure 7 – Pending CSS Audit Certificates in Kerala

Speed Post

5(A)



भारतीय लेखा तथा लेखापरीक्षा विभाग  
 INDIAN AUDIT AND ACCOUNTS DEPARTMENT  
 प्रधान महालेखाकार (लेखापरीक्षा)  
 PRINCIPAL ACCOUNTANT GENERAL (AUDIT)  
 केरल, तिरुवनन्तपुरम - 695 039  
 KERALA, THIRUVANANTHAPURAM-695 039  
 P.B. No. 5608  
 EAP/II/7-25/Rep./Vol.VIII/ 60  
 Dated: 8-10-2007

To

The Director General (Audit)  
 Office of the Comptroller and Auditor General of India  
 10, Bahadur Shah Zafar Marg,  
 New Delhi-110 124

Sir,

Sub:- Central Assistance to Kerala for Plan Schemes-  
 Issue of Audit Certificates-Report for the  
 Quarter ended 30-09-2007


Ref:- (1) Headquarters Office circular  
 No.52/Au.Plg./186-94 dated 01-02-1996.


(2) Headquarters Office Circular No.  
 715/Audit/(Au.Plg.)/186-94 dated 19-09-1996.

The progress report (Annexure A, B, C & D) for the  
 quarter ending 30-09-2007 on the issue of Audit  
 Certificates in respect of Central plan/Centrally Sponsored  
 and State Plan Schemes is forwarded herewith.

This issues with the approval of Principal Accountant  
 General (Audit).

Yours faithfully,

  
 Deputy Accountant General (AB)



Audit (Plg)

1122-PP4  
 13/4  
 AB 11/13  
 13/2

दूरभाष / Telephone : 0471-2330799      फैक्स / Fax : 0471 - 2331326      ई-मेल / e-mail : audker@vsnl.com



ANNEXURE A & B

STATEMENT SHOWING YEARWISE PROGRESS MADE TOWARDS THE ISSUE  
OF AUDIT CERTIFICATES IN RESPECT OF CENTRALLY  
SPONSORED/CETRAL PLAN SCHEMES FOR THE QUARTER ENDED  
30-09-2007

| Year      | No. of Schemes | Clearance | Closing Balance | No. of State level reviews conducted during the year | Review for which audit findings have been reported to Min/Planning Commn. |
|-----------|----------------|-----------|-----------------|--|---|
| 1999-2000 | (232) 1        | (231) -   | 1               | 1  | Nil   |
| 2000-2001 | (238) 1        | (237) 1   | 1               |  |   |
| 2001-2002 | (226) 1        | (222) 1   | 4               |  |   |
| 2002-2003 | (222) 7        | (215) 4   | 7               |  |   |
| 2003-2004 | (208) 17       | (191) 17  | 17              |  |   |
| 2004-2005 | (196) 25       | (173) 2   | 23              |  |   |
| 2005-2006 | (199) 199      | (10) 9    | 189             |  |   |

253      11      212

*Madiwan*  
Audit Officer/EAP

## Annexure 8 – Caste and Community of the MLAs in Bihar %

|                                  | 1952        | 1957        | 1962        | 1967        | 1969        | 1972        | 1977        | 1980        | 1985        | 1990        | 1995        | 2000        | 2005        | TOTAL       |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Upper Castes</b>              | <b>46</b>   | <b>45.9</b> | <b>46.2</b> | <b>44.8</b> | <b>42</b>   | <b>42.8</b> | <b>40.8</b> | <b>36.5</b> | <b>38.5</b> | <b>34.5</b> | <b>21.8</b> | <b>23.1</b> | <b>30</b>   | <b>38.1</b> |
| Brahmin                          | 12.1        | 10          | 13.8        | 11          | 9.4         | 11          | 7.1         | 12.3        | 10.8        | 8.3         | 3.1         | 3.1         | 4.9         | 9.1         |
| Bhumihar                         | 10          | 12.5        | 8.8         | 11.6        | 10.3        | 10.4        | 10.2        | 9.8         | 10.5        | 11.1        | 5.8         | 7.1         | 9.5         | 9.8         |
| Bengali                          | 1.5         | 0.6         | 0.9         | 1.9         | 2.5         | 2.5         | 2.2         | 1.2         | 1.2         | 1.2         | 1.2         | 0.3         | –           | 1.4         |
| Rajput                           | 14.2        | 17.2        | 19.1        | 17.2        | 17.6        | 17.6        | 18.5        | 11.4        | 14.5        | 12.7        | 9.5         | 11.4        | 14          | 15          |
| Kayastha                         | 8.2         | 5.6         | 3.4         | 3.1         | 2.2         | 1.3         | 2.8         | 1.8         | 1.5         | 1.2         | 2.2         | 1.2         | 1.6         | 2.8         |
| <b>Backward Castes</b>           | <b>19.3</b> | <b>18.8</b> | <b>23.6</b> | <b>26</b>   | <b>27.9</b> | <b>24.9</b> | <b>27.7</b> | <b>29</b>   | <b>25.3</b> | <b>34.2</b> | <b>43.6</b> | <b>35.2</b> | <b>34.5</b> | <b>28.4</b> |
| Yadav                            | 7.9         | 6.6         | 9.4         | 11.6        | 15          | 11          | 15.4        | 13.8        | 14.5        | 19.1        | 25.8        | 20.7        | 22.6        | 14.8        |
| Kurmi                            | 3.6         | 3.8         | 4.4         | 4.1         | 3.8         | 6           | 3.7         | 6.2         | 5.2         | 4.9         | 5.8         | 4.6         | 4.5         | 4.7         |
| Koeri                            | 4.5         | 5.3         | 6           | 4.7         | 2.8         | 4.1         | 4.6         | 2.8         | 2.8         | 4           | 6.8         | 5.9         | 4.9         | 4.5         |
| Baniya                           | 3.3         | 3.1         | 3.8         | 5.6         | 6.3         | 3.8         | 4           | 6.2         | 2.8         | 6.2         | 5.2         | 4           | 2.5         | 4.4         |
| <b>Extremely Backward Castes</b> | <b>1.2</b>  | <b>0.6</b>  | <b>0.9</b>  | <b>0.6</b>  | <b>0.9</b>  | <b>0.9</b>  | <b>0.6</b>  | <b>1.5</b>  | <b>1.8</b>  | <b>0.6</b>  | <b>3.1</b>  | <b>5.2</b>  | <b>5.3</b>  | <b>1.7</b>  |
| <b>Scheduled Castes</b>          | <b>13.9</b> | <b>14.7</b> | <b>13.2</b> | <b>13.5</b> | <b>14.1</b> | <b>13.8</b> | <b>13.8</b> | <b>14.5</b> | <b>14.8</b> | <b>14.8</b> | <b>15.1</b> | <b>14.8</b> | <b>16.9</b> | <b>14.4</b> |
| <b>Scheduled Tribes</b>          | <b>10.9</b> | <b>11.2</b> | <b>9</b>    | <b>9.2</b>  | <b>8.8</b>  | <b>8.9</b>  | <b>8.5</b>  | <b>8.6</b>  | <b>8.9</b>  | <b>9</b>    | <b>8.2</b>  | <b>8.9</b>  | <b>–</b>    | <b>8.7</b>  |
| Santhal                          | 2.7         | 2.2         | 0.6         | 1.3         | 0.9         | 1.3         | 1.2         | 1.5         | 0.9         | 0.6         | 0.9         | 0.9         | –           | 1.2         |
| Munda                            | 1.2         | 0.9         | 0.6         | 1.3         | 0.6         | 1.3         | 0.6         | 0.3         | 1.2         | 0.9         | 0.9         | 1.2         | –           | 0.9         |
| Oraon                            | 0.6         | 0.9         | 0.6         | 0.3         | 1.3         | 0.6         | 1.2         | 0.6         | 0.6         | 0.9         | 0.6         | 0.9         | –           | 0.7         |
| Others                           | 6.4         | 7.2         | 7.2         | 6.3         | 6           | 5.7         | 5.5         | 6.2         | 6.2         | 6.5         | 5.8         | 5.9         | –           | 5.9         |
| <b>Religious Minorities</b>      | <b>7.60</b> | <b>8.10</b> | <b>7.20</b> | <b>5.9</b>  | <b>6.3</b>  | <b>8.5</b>  | <b>8</b>    | <b>9.5</b>  | <b>10.8</b> | <b>6.8</b>  | <b>7.7</b>  | <b>9.6</b>  | <b>9.5</b>  | <b>8.1</b>  |
| Muslims                          | 7.6         | 7.8         | 6.6         | 5.6         | 6           | 8.2         | 7.7         | 8.9         | 10.2        | 6.2         | 7.1         | 9.3         | 9.5         | 7.7         |
| Christians                       | –           | 0.3         | 0.6         | 0.3         | 0.3         | 0.3         | 0.3         | 0.3         | 0.3         | 0.3         | 0.3         | –           | –           | 0.3         |
| Parsis                           | –           | –           | –           | –           | –           | –           | –           | –           | 0.3         | –           | –           | –           | –           | 0           |
| Sikhs                            | –           | –           | –           | –           | –           | –           | –           | 0.3         | –           | 0.3         | 0.3         | 0.3         | –           | 0.1         |
| <b>Unidentified</b>              | <b>0.9</b>  | <b>0.3</b>  | <b>–</b>    | <b>–</b>    | <b>–</b>    | <b>0.3</b>  | <b>0.6</b>  | <b>0.3</b>  | <b>–</b>    | <b>–</b>    | <b>0.3</b>  | <b>3.1</b>  | <b>3.7</b>  | <b>0.7</b>  |
| TOTAL                            | 99.80       | 99.70       | 100.10      | 100.00      | 100.00      | 100.10      | 100.00      | 99.90       | 100.10      | 99.90       | 99.80       | 99.90       | 99.90       | 100.00      |
|                                  | (N=330)     | (N=319)     | (N=319)     | (N=319)     | (N=319)     | (N=318)     | (N=325)     | (N=325)     | (N=325)     | (N=324)     | (N=325)     | (N=324)     | (N=243)     | (N=4115)    |

(99.6)

Source: Robin (2009: 100 Appendix 4)

(100.1)

## **Annexure 9 – Deficiencies in CSS Expenditure Tracking**



**KANWAL NATH**  
DEPUTY COMPTROLLER  
AND AUDITOR GENERAL

D.O.No.18 – DAI/2006  
OFFICE OF THE  
COMPTROLLER & AUDITOR  
GENERAL OF INDIA  
10, BAHADUR SHAH ZAFAR MARG,  
New Delhi –110 002

April 05, 2006

Dear Ms. Kaur,

As you are aware, at the meeting of the Expert Group on restructuring of Centrally Sponsored Schemes held on 30<sup>th</sup> January 2006, the Chairman had requested me for a note on suggestions about how the Indian Audit & Accounts Department can assist in tracking of funds released under the Centrally Sponsored Schemes.

I enclose a note on the subject. This may kindly be put up to the Chairman of the Expert Group.

Best wishes,

Yours sincerely,

Sd/-  
(Kanwal Nath)

Ms Gurjot Kaur,  
Adviser (PC/T/PO&RM)  
Planning Commission,  
Yojana Bhawan,  
New Delhi –110001

**Subject: Restructuring of Centrally Sponsored  
Schemes**

Reference: D.O letter No. M-12017/16/05 – PC dated 27 January 2006  
from Advisor (PC/T/PO&RM). Planning Commission.

1. This note is in response to the meeting on 30 January 2006 of the Expert Group set up to develop concrete proposals for restructuring the centrally sponsored schemes, which was attended by the Deputy Comptroller and Auditor General, Shri Kanwal Nath. The meeting requested the Deputy Comptroller and Auditor General to suggest as to how Indian Audit & Accounts Department (IA&AD) can assist of the funds released under Centrally Sponsored Schemes.

2. IA & ID may be able to contribute significantly to the management of the Centrally Sponsored Schemes in relation to (i) tracking of the funds and (ii) correctness and completeness of performance information, including the expenditure.

**Tracking of the funds down to the end-use**

3. This is an accounting function. In the existing system, the amounts under Centrally Sponsored Schemes are released by the Central Government through a variety of channels. The amounts released to all or most of them are booked as final expenditure in the books of the Union Government, even when the whole or part of it may not have been utilized for the purpose for which the funds were appropriated during the year.

4. Some of the channels of release of the funds are:

To state governments, when the amounts are further released/ spent through the state budget.

Directly to state autonomous bodies (viz. DRDA etc.)

To central autonomous bodies for specific tasks/jobs (viz. research etc.).

5. The existing procedure does not facilitate capture, at any given point of time, of (i) amounts actually utilized for the end-use, (ii) amounts in transit viz. advances to local bodies/ PRI or to the executing departments (viz. PWD, PHED, etc.). And (iii) unspent amounts with the state governments / agencies.

6. While the accounts of most state governments are compiled in the A&E offices of Indian Audit and Account Department, the accounts of stat autonomous bodies and all NGOs are maintained by the bodies themselves. Only the vouchers for expenditure from the state budget are received in A&E offices.

7. We have examined the matter on the basis of our experience in auditing the Centrally Sponsored Schemes over the years and have the following suggestions to make.

8. The current procedure of receipt of Utilisation Certificates (UCs) from the implementing agencies and further release of assistance by the administrative Ministries of the Central Government on the basis of such UCs is clearly deficient in the absence of any reasonable assurance about the expenditure actually having been incurred for the purpose for which fund were released. This system has to be replaced by a system of UCs backed by actual vouchers. Pending a decision on the detailed procedure of audit and furnishing of audit certificates, an immediate stipulation could be made that the statutory auditors in respect of the non-government implementing agencies (DRDAs, Zilla Parishads, NGOs etc.,) should include a statement in their audit certificate that they have actually the vouchers in support of the UCs furnished by such bodies. This alone should go a long way in bringing about a minimum modicum of discipline in the system at the grass root level.

9. Coming to the **expenditure incurred on Centrally Sponsored Schemes through the State Budget**, the Accountants General (Accounts & Entitlements) in the States would not be able to link such expenditure unless the expenditure incurred on a scheme can be ascertained across all functional

Major heads of account involved, this will be possible if the State Governments furnish a plan-budget link document to the Accountants General (Accounts & Entitlements). All States are not furnishing such documents despite requests from the Accountants General.

10. Even accounts compiled by Accountants General (A&E) do not capture the data distinctly under each Centrally Sponsored Schemes in the absence of uniform plan-budget link and a distinct sub-head for each of the Centrally Sponsored Schemes. Moreover, the expenditure booked in the state accounts consists of expenditure for the end-use as well as advances to implementing agencies without any distinction between them. There is no coding or accounting rules prescribing coding of the expenditure by their type (end use, advance etc.).

11. The autonomous bodies and NGOs also transfer the amounts received from the Union and state governments under Centrally Sponsored Schemes to local self governing institutions, suppliers and executing departments, which are essentially in the nature of advance, but are booked in their accounts as end-use expenditure. The problem of absence of coding by the type of expenditure exists here also, in the same manner as with the state government.

12. In this background, it is indeed a challenge to track every rupee to its end use through the accounts. The prevailing system of watching the utilization through subsidiary books/registers, which is not linked to the accounts, is optional, time-consuming, and complex. More importantly, this system promotes disregard for accountability.

13. If the State Governments could introduce a standard structure of classification of expenditure in the bills to distinguish advances, part payments, and final payments and ensure correct detailed classification on the vouchers at the initial stage itself, the Accountants General (Accounts and Entitlements) could attempt to generate scheme wise accounting reports

across the Grants, incorporating the requirement for multi departmental schemes. This information can then be supplied to Accountants General/Principal Accountants General (Audit) in the respective States so that they could examine and furnish the audit certificates. **The Expert Group may like to consider recommending appropriate changes in the structure and classification in the bills/vouchers of the expenditure on Centrally Sponsored Schemes in the State Budgets.**

14. Thus AG (A&E) offices can be of assistance in tracking and delineating the amount shown as expenditure under end-use expenditure and amounts in transit under each Centrally Sponsored Scheme, if the following pre-requisites are taken care of:

- (i) In the accounts booked through state government budget, coding and colour of vouchers should capture them by the type of expenditure. Modification to the VLC system could be explored and implemented to capture the data on Centrally Sponsored Schemes by type of expenditure.
- (ii) It should be obligatory for all state governments to provide plan-budget link and determine common sub-heads that identify each Centrally Sponsored Schemes programme distinctly.
- (iii) Administrative / codal provisions should be made to give effect to the above.

15. **As regards the funds released directly to the implementing agencies,** it is pertinent to note that an account of the expenditure from such funds would ideally be required to be maintained by the Controller General of Accounts (CGA). Regardless of the agency which maintains the detailed accounts, the expenditure would need to be clearly identified as advance payment or part payment or final payment. The Accountants General (Audit) would not be able to certify the expenditure against the funds released directly to the implementing agencies as neither does the former receive any expenditure

statements from the agencies nor is the final expenditure routed through the State Government accounts.

16. The following aspects, therefore, will need to be taken care of:

- (i) It should be mandatory for the autonomous bodies and NGOs to maintain their accounts on computer with read and download only access to both AG (A&E) and Pr. A.G./A.G. (Audit).
- (ii) As in the case of funds from the State Budget, a provision /system should be mandatory for autonomous bodies and NGOs to capture their expenditure that can be identified to the particular Centrally Sponsored Schemes and the type of expenditure.
- (iii) A system may be put in place to track the amount in transit to the end-use through accounts/subsidiary accounts rather than through registers.
- (iv) The autonomous bodies of the states should provide expenditure figures periodically in a pre-determined format and with pre-determined details to the state As.G.(A&E) and Pr. A.G./AG (Audit). The vouchers and other documents should be retained by them.
- (v) NGOs and Central autonomous bodies should also provide similar information to the Chief Controller of Accounts with a copy to the principal auditor of the Ministry.
- (vi) The computerization of autonomous bodies/NGOs may be on a compatible platform to enable easy data consolidation.

### **Correctness and completeness of accounts / performance information**

17. Coming to audit, the orders releasing the funds to the implementing agencies would need to specify that the Accountant General (Audit) concerned would have unrestricted access to all the records relating to the utilization and accounting of the funds. A complete audit trail would need to be built into the proposed restructuring of Centrally Sponsored Schemes so that the Accountant General (Audit) could secure the required assurance of the correctness and completeness of the expenditure to be certified in audit. This would have to be in addition to the statutory audit already provided.

18. The audit function can be fulfilled by our state audit offices for expenditure by the state government and state autonomous bodies. Our



Principal Audit Offices for the central ministries can perform this role for funds released to the central autonomous bodies and directly to NGOs. For this purpose following system will need to be established:

- (i) The Pr.A.G.(Au)/AG(Audit) should have free and complete access to the accounts, accounting documents and other related documents of the state/central autonomous bodies, PRIs and Urban Local Bodies.
- (ii) The Audit Office should have access on-line (read and download only) to the accounts of the self-accounting autonomous bodies and NGOs receiving funds for implementation of the Centrally Schemes. They should also have physical access and authority to inspect/audit the accounts and related documents in the same manner as the direct government expenditure. This could be made a condition of sanction of grant.
- (iii) A comprehensive form of certification may be introduced for the accounts and utilisation, which should be provided by the chief executive of the NGOs and autonomous bodies (where necessary PRI/ULB) about the correctness and completeness of data.
- (iv) Pr. A.G./A.G. (Audit) could earmark a portion of his resource for concurrent random verification of the correctness and completeness of data provided and maintained by the implementing authorities across the state(s). Such random verification should be able to detect the errors in reporting without estimating the full impact of it.
- (v) Where the error in accounts / data is significant, comprehensive audit/verification could be undertaken.
- (vi) Detailed performance audit of individual programmes may be conducted by IA & AD as per the existing practice. The result of concurrent verification can form a valuable input for risk assessment and planning of performance audits.
- (vii) A system of audit certification of accounts of each Centrally Sponsored Schemes by each implementing agency (Government or non-Government) may be introduced. The method and agency for certification may be determined in consultation with CAG.

19. The work being of colossal dimensions, it may be appropriate to carry out a mapping exercise together with the Planning Commission and selected state governments, if necessary by involving an expert consultant/agency. This exploratory pilot study will be able to focus on the system required to be

put in place along with the modifications to the existing system and could also highlight the feasibility and magnitude of the issue.

20. Programmes with huge investments are implemented under Centrally Sponsored Schemes by the Central Government at widely dispersed location and under a variety of management and delivery channels. The dispersed management and delivery system with the functionaries under different lines of administrative control ought to be matched comprehensive, strong and enforceable accountability system and procedures and a very high degree of transparency. Our Audit Reports have come out with findings of large scales unauthorized utilisation and misuse, serious errors or misrepresentations in performance reporting, evidence for utilisation and assets not being available etc. The Centrally Sponsored Schemes requires a very strong accountability chain under which every operational level functionary should be accountable to produce documentary physical evidence in support of the utilisation of every rupee. The accountability procedures should be backed by enforceable rules and a consistent system of Surveillance over the performance of the accountability system.

## Annexure 10 – Request to Agri. Ministry for CSS Data

D.O.No.M-12017/16/05-PC

Gurjot Kaur  
Adviser (PC/T/PO&RM)  
Ph: 23096597

January 25, 2006

**Subject: Data required by Expert Group on Centrally Sponsored Schemes (CSS).**

Dear

In pursuance of the decision taken in the meeting of the National Development Council (NDC) held on 27<sup>th</sup> and 28<sup>th</sup> June, 2005 an Expert Group has been set up under the Chairmanship of Shri Arvind Verma, former Secretary to the Government of India, to develop proposals for restructuring Centrally Sponsored Schemes (copy of the order is enclosed). For deliberating on some of the issues raised during discussions the Group requires information on funds allocated, released to States and Union Territories and the utilization reported by them, for the period beginning from the Ninth Five Year Plan to 2004-05, of all the CSS of the Department of Agriculture & Cooperation in operation during this period.

I am writing to seek your assistance in obtaining data on the funds allocated, released to States and Union Territories and the utilization reported by them in the format annexed to the letter both in hard copy and soft copy. I would be grateful if this information could be made available by 8.2.2006 for being placed before the Expert Group.

With regards,

Yours sincerely,  
Sd/-  
(Gurjot Kaur)

Ms. Radha Singh,  
Secretary,  
Department of Agriculture & cooperation,  
Krishi Bhavan, New Delhi.

Copy to Adviser (Agri.) with the request to ensure follow up action with the Department of Agriculture & Cooperation.

  
(Gurjot Kaur)

## Annexure 11 – Request to Health Ministry for CSS Data

D.O.No.M-12017/16/05-PC

Gurjot Kaur  
Adviser (PC/T/PO&RM)  
Ph: 23096597

January 25, 2006

Subject: Data required by Expert Group on Centrally Sponsored Schemes (CSS).

Dear

In pursuance of the decision taken in the meeting of the National Development Council (NDC) held on 27<sup>th</sup> and 28<sup>th</sup> June, 2005 an Expert Group has been set up under the Chairmanship of Shri Arvind Verma, former Secretary to the Government of India, to develop proposals for restructuring Centrally Sponsored Schemes (copy of the order is enclosed). For deliberating on some of the issues raised during discussions the Group requires information on funds allocated, released to States and Union Territories and the utilization reported by them, for the period beginning from the Ninth Five Year Plan to 2004-05, of all the CSS of the Department of Health in operation during this period.

I am writing to seek your assistance in obtaining data on the funds allocated, released to States and Union Territories and the utilization reported by them in the format annexed to the letter both in hard copy and soft copy. I would be grateful if this information could be made available by 8.2.2006 for being placed before the Expert Group.

With regards,

Yours sincerely,  
Sd/-  
(Gurjot Kaur)

Shri Prasanna K. Hota,  
Secretary,  
Ministry of Health & Family Welfare,  
Nirman Bhavan, New Delhi.

Copy to Principal Adviser (Health/SER/SP-N) with the request to ensure follow up action with the Department of Health & Family Welfare.

  
25/1/2006  
(Gurjot Kaur)

## Annexure 12 – List of Persons Interviewed

| Sl. No. | Name             | Designation   | Date/ Period                                |
|---------|------------------|---|---|
| 1.      | Dr. N.C. Saxena  | Former Secretary, Planning Commission of India and Supreme Court Commissioner       | On many occasions between 1/1/06 and 1/1/08 |
| 2.      | Sudhir Kumar     | Officer on Special Duty to Railway Minister Lalu Yadav                              | 24/8/06                                     |
| 3.      | Tarun Aurora     | Planning Commission of India  | 10/2/06                                     |
| 4.      | R.Gopalakrishnan | Prime Minister's Office   | 11/5/07                                     |
| 5.      | R.J.M. Pillai    | Principal Secretary, Bihar  | 31/1/06                                     |
| 6.      | Mukund Prasad    | Former Chief Secretary, Bihar & Former Principal Secretary to Chief Minister, Bihar | 31/1/06                                     |
| 7.      | S.M. Vijayanand  | Principal Secretary, Government of Kerala   | 22/8/06                                     |
| 8.      | Oommen Chandy    | Leader of the Opposition, Kerala  | 22/8/06                                     |
| 9.      | Dr. Thomas Issac | Finance Minister, Kerala  | 22/8/06                                     |

|     |                    |  |                    |
|-----|--------------------|--|--------------------|
| 10. | Dr. K.M. Abraham   | Principal Secretary, Kerala  | 23/8/06            |
| 11. | Dr. Praveen Jha    | Professor, Jawaharlal Nehru<br>University, New Delhi                     | 1/3/06             |
| 12. | Nagesh Singh       | Planning Commission of India   | 30/1/06            |
| 13. | Arvind Verma       | Chairman, Expert Committee on CSS  | 11/1/06            |
| 14. | Aromar Revi        | TARU, New Delhi  | 22/12/05           |
| 15. | Sanjay Kumar       | Centre for the Study of Developing<br>Societies (CSDS), New Delhi        | 2/3/06             |
| 16. | Dr. B.K. Pradhan   | National Council for Applied<br>Economic Research, (NCAER) New<br>Delhi. | 24/3/06            |
| 17. | Prof. John Harriss | London School of Economics   | 15/5/06            |
| 18. | Ravi Mittal        | Secretary, Government of Bihar   | 30/1/06            |
| 19. | Ritu Raj           | Former Police Officer, Bihar   | 1/2/06             |
| 20. | Dr. Jeffrey Witsoe | Anthropologist who works on Bihar  | Many times in 2010 |